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High Income Tax Returns 1975 and 1976

A Report
Emphasizing Nontaxable
and Nearly Nontaxable
Income Tax Returns



Office of Tax Analysis
U.S. Treasury Department
August, 1978

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HIGH INCOME TAX RETURNS: 1975 and 1976

A Report on High-Income Taxpayers Emphasizing Nontaxable and Nearly Nontaxable Income Tax Returns

Chapter 1

Introduction

This is the second in an annual series of reports on high-income tax returns prepared by the Treasury Department in compliance with the Tax Reform Act of 1976. Section 2123 of the Act requires the annual publication of a report containing data on taxpayers with incomes of \$200,000 or more (for income defined in four different ways), including the number of such taxpayers who do not pay any taxes and the importance of various tax provisions in making individuals nontaxable.

The Congressional mandate for a report on high-income taxpayers reflects interest on the part of the Congress in the perennial questions concerning the appropriate level of individual income taxes for individuals and the actual level of taxes that are paid. Thus, the Congressional mandate for information has been interpreted broadly. This report contains data on nontaxable income tax returns, but also it contains data for all high-income returns and for a group of taxpayers called "nearly nontaxables." The nearly nontaxables are those who have so-far escaped the public eye by paying a small amount of income tax, but the amount of tax that nearly nontaxables pay is so small that there can be no

This report was prepared by Allen H. Lerman, Financial Economist, Office of Tax Analysis, under the general direction of Harvey Galper, Associate Director, Office of Tax Analysis.

doubt that they are not carrying a "fair share" of the tax burden. Similarly, while Congress specifically requested information on returns with incomes of at least \$200,000, this report has historical data on other high-income classes.

This report contains data on individual income tax returns for 1975 and 1976. The data on which the report is based have been edited from a sample of tax returns as they were filed, and the sample has been weighted and tabulated so as to accurately represent all returns for the particular year. The data source is the Internal Revenue Service's Statistics of Income, Individual Income Tax data file. For the high-income returns that are the subject of this report, the sampling rate is very high (for some groups all returns filed are actually in the sample) so that the tabulations produced are very accurate.

This report contains the first data reflecting the impact of the Tax Reform Act of 1976. Some of the reforms in this Act were designed specifically to eliminate high-income nontaxables. The effect has been dramatic. Regardless of the income definition used or the particular level of income considered, the number of nontaxable returns fell by well over 50 percent between 1975 and 1976. The tabulations in Tables 1 through 4 in Chapter 4 show that both the actual number of nontaxable returns and their share of all high income returns declined by one-half to three-fourths. The additional analysis in Chapter 6 undertaken to correct shortcomings in the data indicates an even larger decline. For returns with adjusted gross income (AGI) of \$200,000 or more, there were only 22 nontaxables in 1976 as compared with 215 in 1975, a decline of 92 percent. For expanded income, the decrease was from 215 nontaxables to 53, a decline of 75 percent.

For individual taxpayers, the most important changes made by the Tax Reform Act of 1976, were the strengthening of the minimum tax on preference income and the new limitations on tax shelters. Four minimum tax changes were effective in 1976. First, the amount of preference income excluded from the minimum tax was reduced from \$30,000 plus all of ordinary income tax liabilities to the larger of \$10,000 or one-half of ordinary tax liabilities. 1/ Second, the minimum tax rate

1/ The \$30,000 and \$10,000 exclusions are halved for separate tax returns of married persons.

was increased from 10 percent of preferences in excess of the exclusion to 15 percent. Third, a new preference item specifically intended to eliminate high-income, nontaxable returns was created. Beginning in 1976, itemized deductions (other than casualty losses and medical expenses) are a preference item to the extent that they exceed 60 percent of AGI. Thus, any return on which itemized deductions (other than medical expenses and casualty losses) exceed 60 percent of AGI by at least \$10,000 is subject to the minimum tax and, therefore, cannot be nontaxable. ^{2/} Fourth, intangible drilling costs on productive wells in excess of the amount deductible if the expense had been amortized became a preference item.

After summarizing the major conclusions that can be drawn from high-income tax return data for 1975 and 1976, this report explores the importance of the concept used to measure income and examines the overall significance of high-income returns. Data for all high-income returns are presented, together with separate data for nontaxable returns and for nearly nontaxable returns. The report examines whether nontaxable, high-income individuals are a unique phenomenon or whether they are merely extreme cases of high-income people who are avoiding their fair share of the tax burden. The report analyzes the methods by which high-income individuals may still severely minimize or completely eliminate Federal income taxes.

This report also provides a large selection of raw data from high-income tax returns for use by investigators outside government. At the end of this report, there are three statistical appendices. Two of the appendices contain statistical tables with data for 1976 and 1975 which together with tables in the body of the report contain virtually all of the data about high-income returns that are currently available for 1975 and 1976 returns. The third appendix contains data for 1974 high-income tax returns that have been reclassified to be consistent with 1975 and 1976 data. These appendices should be useful in the examination of many additional questions about high-income taxpayers. Except for some of the tables in Chapter 6, all of the data in the tables are from the tax returns as originally filed by taxpayers. Any changes which have been made or are likely to be made as a result of Internal Revenue Service audits are not reflected in the tables.

^{2/} \$5,000 on separate tax returns of married persons.

Chapter 2

Highlights

1. The Tax Reform Act of 1976 was extraordinarily successful in reducing the number of high-income nontaxable income tax returns. For tax returns showing adjusted gross income (AGI) of \$200,000 or more, the number of nontaxables fell to only 22 in 1976 from 260 in 1975, a decline of 92 percent. The proportion of nontaxables fell from 1 out of 130 high-income returns in 1975 to about 1 out of every 2,000 returns in 1976. As measured by the more comprehensive definition of expanded income, the decrease was similar, although not quite so dramatic. The number of nontaxable returns fell by 75 percent, from 215 in 1975 to 53 in 1976. This is far fewer than in any year since data became available in 1966.
2. The number of high-income nontaxable returns is not a good measure of the number of high-income individuals who avoid paying a fair share of the tax burden. For every nontaxable, high-income return there are a significant number of other returns -- called nearly nontaxables -- which do have some liability, but whose effective tax rates are lower than that of a typical middle- or lower-middle income family. As defined by either economic income or AGI, there were almost 500 nontaxable and nearly nontaxable high-income tax returns in 1976. This number is about twice as large as the number of high-income nontaxables in the late 1960's whose existence prompted the Congress to enact the minimum tax.
3. Even the expanded income measure, which is broader than AGI, does not include income from some sources which are very important for high-income individuals. Expanded income understates economic income because taxpayers are allowed deductions for real estate and agriculture expenses in excess of economic costs and because income such as interest on tax-exempt state and local bonds is omitted. The understatement of income causes some individuals with high economic incomes to be omitted from this report. The number of

such individuals, however, is not known. The understatement of income also makes the effective tax rate (taxes as a percentage of income) for all high-income returns appear higher than it actually is.

4. Despite the extraordinary publicity given to high-income, nontaxable returns, most taxpayers with income of \$200,000 or over (however that income is defined) pay substantial Federal income taxes. As measured by expanded income, the income measure which most closely approximates economic income, the average effective tax rate was 30 percent in 1975 and 35 percent in 1976. Over two-thirds of high-income taxpayers paid Federal income taxes in excess of 30 percent of their expanded income, and over 85 percent paid 20 percent or more. In contrast, 2 to 3 percent of all high-income returns had an effective tax rate of less than 10 percent.
5. Despite important conceptual differences between the four income concepts (expanded income, adjusted gross income, adjusted gross income plus preferences, and adjusted gross income less investment interest), use of any of the concepts leads to essentially the same conclusions about high-income nontaxables and nearly nontaxables. This is so because one-half to two-thirds of the same individuals are in all of the high-income nontaxable groups.
6. Nontaxables and nearly nontaxables as measured by AGI do differ in one systematic way: nontaxable returns have very little tax preference income. This is the result of the minimum tax itself. If nontaxable returns had larger amounts of preference income, they would become subject to the minimum tax, and, therefore, could no longer be nontaxable.
7. By and large, returns are not made nontaxable by a single preference, deduction, or credit. However, nontaxability is often produced by one unusually large item in combination with a number of other substantial but not unusual items. Large foreign tax credits and large casualty losses produced most of the nontaxable high AGI returns in 1976. For the high expanded income returns, the most important causes of nontaxability were tax preference income excluded from the tax base (mainly the capital gains exclusion),

charitable contributions, casualty losses, miscellaneous deductions, investment interest expenses in excess of investment income, and the foreign tax credit. Even under present law, the foreign tax credit and the deductions for casualty losses and medical expenses are likely to produce a handful of nontaxables each year.

8. Available data are not sufficient to determine whether many high-income individuals are nontaxable for only a single year which is preceded and followed by years when substantial amounts of taxes are paid, or whether some taxpayers pay little, if any, tax year after year.
9. The detailed analysis of high AGI nontaxables in 1976 indicates that when there is a large foreign tax credit, the credit is usually for a true income-type tax paid to a foreign government. Furthermore, in terms of income as measured in the United States, these individuals paid taxes to foreign governments at very high effective tax rates, typically in excess of 50 percent. Furthermore, in most of these instances, the taxpayers were in fact living abroad and deriving their incomes from abroad.
10. Although the Tax Reform Act of 1976 reduced the number of nontaxables and nearly nontaxables and raised the average effective tax rate modestly for the remaining nearly nontaxables, it did not significantly change the average effective tax rate for other individuals with incomes of \$200,000 or more. In fact, the tax rate on all high expanded income returns other than nontaxables and nearly nontaxables actually declined from 36 percent in 1975 to 35 percent in 1976.

Chapter 3

The Measurement of Income

This chapter first discusses an ideal broad-based measure of income and then outlines the adjustments necessary to obtain a broad income measure solely from data available from tax returns.

Economic Income, the Ideal Measure

Since this report is concerned with the impact of the tax system on high-income individuals, the analysis requires the accurate measurement of income. Economists generally agree that for analyzing the impact of taxes the ideal measure of income over a particular period of time, say a year, is the amount that the individual or family has consumed over that period plus the change in its net worth. For example, if a family has spent \$10,000 and has saved \$2,000 during the year, economists would say that the family had had an income of \$12,000. Similarly, if the family has spent \$10,000 but owned an asset that has decreased in value by \$1,000, economists would say that the family had had an income of only \$9,000 during the year.

A brief examination of the differences between income as defined by economists, so-called economic income, and adjusted gross income (AGI), the concept currently used for income tax purposes, illustrates some of the problems of measuring income, especially for high-income individuals.

Adjusted Gross Income

Tax experts have long been aware that adjusted gross income is deficient as a measure of a taxpayer's economic income. AGI excludes some income such as interest from tax-exempt state and local bonds, social security benefits, the excluded portion of realized long-term capital gains (and all accrued but unrealized capital gains), and imputed rent on owner-occupied housing. Income from certain activities, while not "strictly" excluded from AGI, is deferred to a later year (or indefinitely) for income tax purposes. Depreciation deductions in excess of economic deductions

reduce AGI early in the life of an asset, but the resulting lower depreciation deductions in later years raises AGI. The net effect of accelerating depreciation deductions is to postpone taxes. 1/

Despite the fact that some types of income are excluded, AGI may overstate economic income because some expenses incurred in the production of income are not deductible in the computation of AGI; most of these are deductible from AGI in calculating taxable income, but only if the taxpayer itemizes his personal deductions. 2/ Two types of deductions which fall into this category are employee expenses and expenses attributable to a taxpayer's investments (as opposed to his active operation of a trade or business), including but not limited to investment interest. 3/ Although net

1/ The Internal Revenue Code defines AGI as all gross income that is not specifically excluded from gross income. Among these exclusions are (1) trade or business deductions (other than most such deductions by employees), (2) the deduction for one-half of net long-term capital gains, (3) limited deductions for losses from the sale or exchange of property, (4) deductions attributable to rents and royalties, (5) the moving expense adjustment, and (6) deductions for contributions to individual retirement accounts and H.R. 10 plans.

Gross income only includes income which has been "realized." Thus, for tax purposes, accrued increases or decreases in the value of assets generally are not recognized until a gain or loss is realized by a sale or exchange. Similarly, gross income does not include the value of the services received from the use of durable goods, such as imputed net rent of owner-occupied housing. Finally, interest on state and local government debt and social security benefits are not included in AGI.

2/ Taxes are related to but not calculated from AGI. Taxes are determined by taxable income which equals AGI minus itemized deductions (or, if the taxpayer so elects, the standard deduction) and the deduction for personal exemptions.

3/ For the years covered by this report, alimony payments were also treated as an itemized deduction even though alimony income was includable in the AGI of the recipient. Beginning in 1977, alimony is deducted from gross income in computing AGI.

realized capital losses reduce economic income, only the first \$1,000 may be deducted in the computation of AGI; any excess must be carried forward to future years. 4/

Redefining Income

Ideally, the impact of all taxes should be measured relative to economic income. However, no accurate, detailed data on such a broadly defined income measure are available for a cross-section of American taxpayers. As a practical matter, any broad income measure must be determined from data already contained on Federal individual income tax returns. Thus, a more comprehensive income measure must start from AGI and make adjustments for omitted income and for expenses which ought to be deductible in calculating income.

Omitted Income

Tax returns contain information about only a portion of the income which is included in economic income but excluded from AGI. The omitted income which can be identified on tax returns consists of the dividend exclusion of up to \$100 per taxpayer and the income from sources which were considered to be tax preferences for purposes of the minimum tax. It should be noted that unless such preferences exceeded \$30,000 for a 1975 return or \$10,000 for a 1976 return, 5/ the total amount of such preferences was not recorded, and the excluded half of net long-term capital gains is the only preference item available. The omission is not serious since preference items other than the excluded portion of net long-term capital gains represents less than 20 percent of all minimum tax preference income. 6/

4/ The \$1,000 limit for the deduction of net capital losses applies to years before 1977. For 1977, the limit was \$2,000, and beginning in 1978, the limit is \$3,000. In all years, the limit for married persons filing separately is half of the amounts indicated.

5/ Half these amounts on returns of married persons filing separately.

6/ The 1976 minimum tax preference item of itemized deductions (other than medical expenses and casualty) in excess of 60 percent of AGI does not represent omitted income; hence, it has not been used to adjust AGI.

Despite the inclusion of preference income which is not in AGI but which is identifiable on tax returns, several major sources of income for high-income taxpayers are still omitted: 7/

- interest on tax-exempt state and local bonds;
- certain agricultural expenses which are deducted when paid even though related income items are not includable in income for taxpayers until a later year; and
- straight-line depreciation deductions on real estate to the extent that they exceed economic depreciation.

For real estate, the combination of a shorter life for tax purposes than the true economic life of the property and the straight-line depreciation method produce tax depreciation deductions which exceed economic depreciation in the early years of ownership. At some future time, income may be correspondingly higher, but in the meantime the taxpayer has had the interest-free use of the deferred taxes. Also, in the later year, the income may be converted into a long-term capital gain which is taxed at a lower rate.

Because sources of income that are not identifiable from tax return data are excluded, all income measures used in this report understate economic income. As a consequence, some individuals with high economic income will be omitted completely from the high-income group in this report. Moreover, even for the individuals included, income will be understated and taxes as a percentage of income (that is, the effective tax rate) will be overstated.

Investment Expenses

In determining economic income, it would be appropriate to deduct all expenses incurred in the production of income, including those related to any income-producing investments. Since economic income would include investment income

7/ Social security benefits and unemployment compensation are also excluded. In the aggregate, this is a major omission, but it is relatively unimportant for high-income taxpayers.

currently and completely, it would be proper to deduct all investment expenses without limit. Investment expenses in excess of income would then represent a net economic loss, roughly akin to a net operating loss from a trade or business. However, such a liberal deduction for investment-related expenses is not necessarily correct when a less comprehensive income definition is used. In such a case, a full deduction for investment expenses might well represent a mismatching of receipts and expenses with the result that net income would be understated. For example, if a taxpayer borrowed funds to purchase securities, his net income would be understated if he deducted all of the interest paid on the loan but he did not include as income any accrued gains on the securities. In this instance, it might be appropriate to postpone the deduction of the interest expense until the time when the capital gains were realized. A similar mismatching could occur if other investment expenses that should properly be capitalized are deducted when they are paid.

The fungibility of money creates additional problems. If a person with a loan has both income-producing assets, such as securities, and non-income producing assets, such as a vacation home or yacht, it is not possible to determine what portion, if any, of the interest expense is attributable to the income-producing assets and, therefore, ought to be deducted in measuring income.

As a result of these problems as well as the limited data which are available on Federal income tax returns, it has been necessary to define arbitrary limits for the amount of investment expenses which may be deducted in calculating a broader measure of income.

Investment expenses appear on a Federal income tax return in two places. Investment interest appears as part of the itemized deduction for interest; other investment expenses such as payments for investment advice are included in the miscellaneous category of itemized deductions. For this report, investment interest is defined as the entire interest deduction other than interest paid on a home mortgage. Since other investment expenses could not be separated from the remainder of miscellaneous deductions, this report defines non-mortgage interest as the only investment expense. This procedure tends to overstate income.

To the extent that interest expenses do not exceed investment income, they are considered to be a legitimate deduction in the computation of broadly measured income. One consequence of this definition is that investment expenses can never turn a profitable investment into a losing investment. It is logical to limit the investment expense deduction in this way. A person would not normally make an investment where the expenses are expected to approach or exceed investment income. Thus, allowing investment expenses to offset all of investment income is overly generous and tends to understate broadly measured income. On the other hand, there may be cases of genuine investment losses, akin to trade or business losses, which are not allowed, thereby causing overstatements of income.

The amount of investment income against which investment interest can be offset depends on the amount of investment income included in the income measure under consideration. Investment income consists of interest, dividends, and net capital gains (or losses). However, if only a portion of capital gains are included in the income concept, as is the case with AGI, then only that portion is considered to be investment income.

Expanded Income

The Congress has asked for high-income data to be tabulated on the basis of a measure closely approximating economic income but using only data available on tax returns. This measure is called "expanded income."

Expanded income is defined as adjusted gross income plus items of tax preference less investment expenses to the extent that they do not exceed investment income. 8/ Tax preferences that are included are the \$100 per taxpayer exclusion for dividends of domestic corporations, the excluded half of net long-term capital gains, and, where the

8/ For the sake of brevity, "investment interest to the extent that it does not exceed investment" income is called "investment interest." "Investment interest in excess of investment income" is called "excess investment interest."

taxpayer has filed a minimum tax form with his tax return, all other preferences subject to the minimum tax except excess itemized deductions. For individuals, the only minimum tax items of significance other than excluded capital gains are the excess of accelerated depreciation over straight-line depreciation on real property and on personal property subject to a net lease, the excess of percentage depletion over the cost of the property, and deductions for intangible drilling costs in excess of the amount deductible if these costs had been amortized. Because expanded income is based on tax return data, it excludes items such as interest on tax-exempt state and local bonds, accrued but unrealized capital gains, and straight-line depreciation on real estate in excess of economic depreciation.

Four Income Measures

The Congress has mandated that high-income tax return data be selected and classified by four income measures. Expanded income and AGI have already been discussed. Each of the additional measures embodies only one of the two major conceptual differences between expanded income and AGI. "Adjusted gross income plus preferences" is calculated by increasing AGI by the amount of tax preference income. "Adjusted gross income less investment interest" is calculated by reducing AGI by the amount of investment interest to the extent that it does not exceed investment income.

When ranked according to size of income, AGI plus preferences is largest, AGI less investment interest is smallest, and AGI and expanded income fall in between. For any individual taxpayer, AGI can be larger or smaller than expanded income depending on whether preferences are larger or smaller than investment interest.

The four income concepts are related in the following manner 9/ :

Expanded Income

$$= \text{Adjusted Gross Income} + \text{Preferences} - \text{Investment Interest}$$

Adjusted Gross Income

$$= \text{Expanded Income} - \text{Preferences} + \text{Investment Interest}$$

Adjusted Gross Income plus Preferences

$$\begin{aligned} &= \text{Adjusted Gross Income} + \text{Preferences} \\ \text{or} \quad &= \text{Expanded Income} + \text{Investment Interest} \end{aligned}$$

Adjusted Gross Income minus Investment Interest

$$\begin{aligned} &= \text{Adjusted Gross Income} - \text{Investment Interest} \\ \text{or} \quad &= \text{Expanded Income} - \text{Preferences} \end{aligned}$$

Expanded income most closely approximates a measure of economic income. To the extent that the availability of data permit, the analyses in this report are based on expanded income.

9/ Note that the investment income limitation for defining excess and non-excess investment interest is dependent upon the income concept. Hence, the amount of the investment interest adjustment differs depending on which definition is used.

Chapter 4

High-Income Tax Returns

Compared to the total number of Federal individual income tax returns filed each year, the number of high-income tax returns is rather small. There were only 41,761 income tax returns with adjusted gross income (AGI) of \$200,000 or over in 1976; these returns represented only one-twentieth of one percent (0.05 percent) of the total of 84,700,000 income tax returns filed. Similarly, the number of tax returns with expanded income of \$200,000 or over was 53,587, or 0.06 percent of all returns filed. In recent years due to both inflation and to rising levels of real income, the number of high-income tax returns has increased dramatically in both absolute numbers and as a percentage of all tax returns filed. For example, in 1970 there were 15,223 income tax returns with AGI of \$200,000 or over, representing 0.02 percent of all tax returns filed in that year. In 1960, there were only 5,889 such returns, less than 0.01 percent of all returns. Thus, in 16 years, the number of high AGI returns increased seven-fold, and their share of all returns increased more than five-fold. 1/

Although high expanded income returns are only 0.06 percent of all returns filed, they contain 2.1 percent of all expanded income and pay 5.5 percent of all individual income tax liabilities. Similarly, although taxpayers with adjusted gross income of \$200,000 or more represent only 0.05 percent of all returns, they have 1.5 percent of AGI and pay 4.9 percent of taxes.

Out of this relatively small percentage of all returns filed in a given year, the number of these returns that are nontaxable is far smaller. For each year between 1966 and 1976, Table 1 shows the number of nontaxable returns with adjusted gross income of \$200,000 or more; it also shows the

1/ Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1960 and 1970.

Table 1

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$200,000 or Over Under Alternative Concepts

| Year | Returns Selected By | | | | | | | | | |
|--------------|---------------------|-------------|-----------------------|-------------|-----------------------|-------------|-----------------------|-------------|-----------------------|-------------|
| | Expanded Income | | Adjusted Gross Income | | Adjusted Gross Income | | Adjusted Gross Income | | Adjusted Gross Income | |
| | Number | Percent of | Number | Percent of | Number | Percent of | Number | Percent of | Number | Percent of |
| | of | all Returns | of | all Returns | of | all Returns | of | all Returns | of | all Returns |
| | Returns | Class | Returns | Class | Returns | Class | Returns | Class | Returns | Class |
| 1966 | | | 154 | 1.26 % | | | | | | |
| 1967 | | | 167 | 1.07 | | | | | | |
| 1968 | | | 222 | 1.15 | | | | | | |
| 1969 | | | 300 | 1.62 | | | | | | |
| 1970 | | | 111 | 0.73 | | | | | | |
| 1971 | | | 82 | 0.45 | | | | | | |
| 1972 | | | 108 | 0.47 | | | | | | |
| 1973 1/ | 91 | 0.26 % | 164 | 0.64 | | | | | | |
| 1974 2/ | 167 | 0.39 | 244 | 0.78 | | | | | | |
| 1975 3/ | 215 | 0.53 | 260 | 0.77 | | | | | | |
| 1976 4/ | 89 | 0.17 | 68 | 0.16 | | | | | | |
| 1976 retabu- | | | | | | | | | | |
| lated 5/ | 53 | 0.10 | 22 | 0.05 | | | | | | |
| | | | | | 41 | 0.07 | | | 21 | 0.05 |

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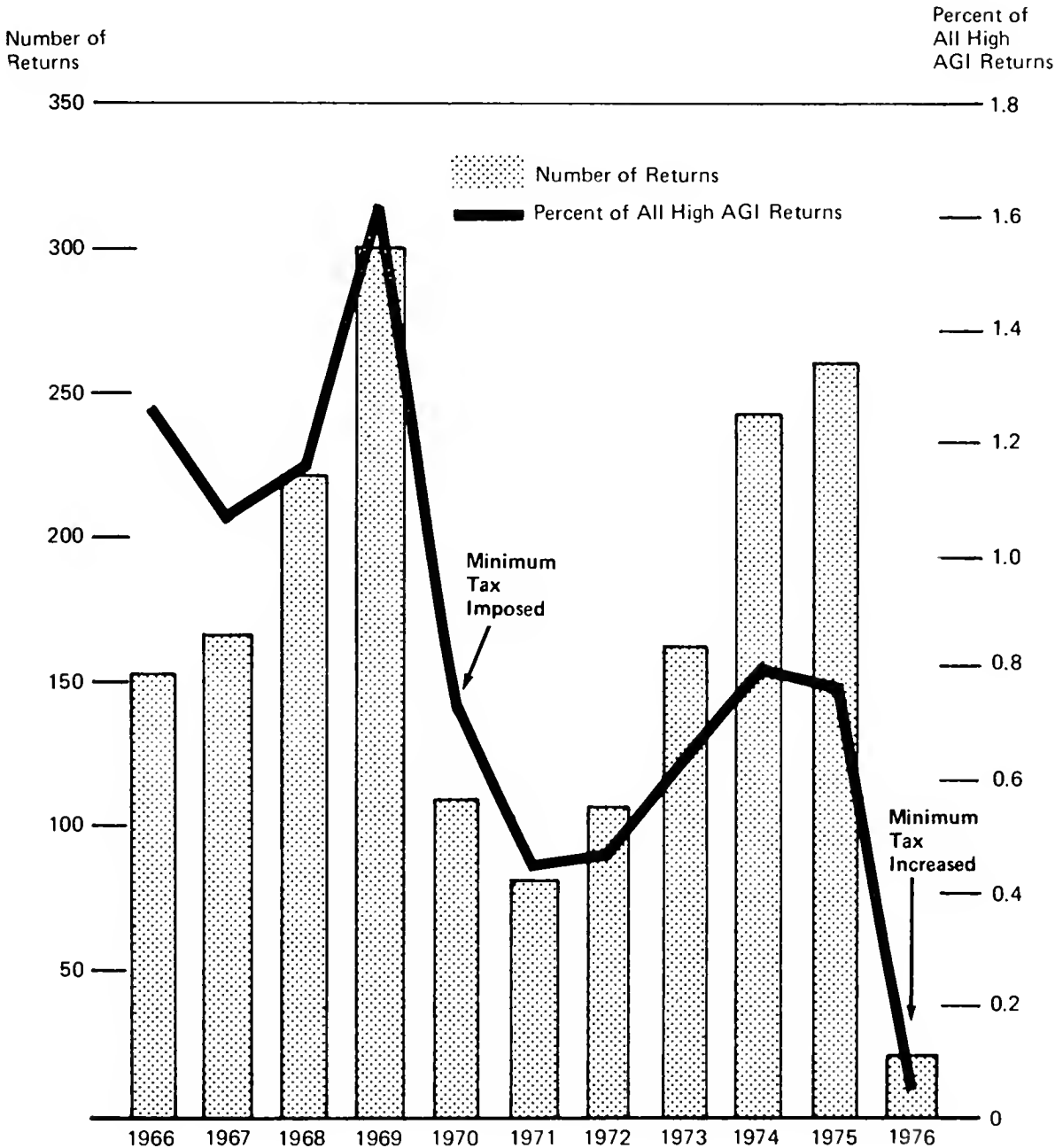
Source: Statistics of Income, except as noted.

- 1/ Expanded income number and percentage are from the 1973 Treasury tax model.
2/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.
3/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.
4/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.
5/ See Chapter 6 for an explanation of reason for retabulation.

Chart 1

**NUMBER AND PERCENTAGE OF NONTAXABLE
HIGH ADJUSTED GROSS INCOME RETURNS
1966 - 1976**

(Adjusted Gross Incomes of \$200,000 and over)



number of nontaxable returns as a percentage of all returns in the income class. Similar data for years prior to 1966 are not available. For the years 1973 through 1976, Table 1 also presents the number of nontaxable returns as defined by expanded income, by adjusted gross income plus preferences, and by adjusted gross income less investment interest. Prior to 1973 these data were not available regularly and consistently. 2/

Chart 1 displays for each year between 1966 and 1976 the number of nontaxable high AGI returns and the percentage of all high AGI returns that are nontaxable. The percentage of high-income, nontaxable returns has increased over time except when the tax law has been tightened. The reason for this upward trend is not clear; however, it is possible that it represents a learning curve. That is, over time, taxpayers learn how to arrange their tax affairs so that within the constraints imposed by the Internal Revenue Code they minimize (or eliminate) their income taxes. Chart 1 also illustrates the sharp declines in nontaxables in 1970 as a result of the imposition of the minimum tax and again in 1976 as a result of the substantial strengthening of the minimum tax. 3/

Because of both inflation and rising real incomes, notions of what represents a truly high level of income have changed over the years. For this reason, as well as to give some idea of the differences which the income cutoff point makes, Tables 2, 3, and 4 show data similar to that contained

2/ The data for 1974, 1975 and 1976 are from the Internal Revenue Service, either from the complete Statistics of Income individual file of income tax returns or from a subsample of that file called the Internal Revenue Service tax model. The data for 1973 were developed by the Office of Tax Analysis from the 1973 Treasury tax model.

3/ The data show a sharp decline in 1970 in nontaxables, both absolutely and as a fraction of all high AGI taxpayers and then a further decline in 1971. It is likely that the full decline actually took place in 1970 but because of poor compliance with the minimum tax in its first year, the decline was not fully reflected in data from unaudited tax returns.

Table 2

**Number and Percentage of Nontaxable Income Tax Returns
With Income of \$100,000 or Over Under Alternative Concepts**

| Year | Returns Selected By | | | | | | | | | |
|---------|---------------------|---------------|-----------------------|---------------|--|---------------|--|---------------|------------|---------------|
| | Expanded Income | | Adjusted Gross Income | | Adjusted Gross Income plus Preferences | | Adjusted Gross Income less Investment Interest | | Percent of | |
| | : : : | | : : : | | : : : | | : : : | | : : : | |
| | Number | Percent of | Number | Percent of | Number | Percent of | Number | Percent of | Number | Percent of |
| | of | : all Returns | of | : all Returns | of | : all Returns | of | : all Returns | of | : all Returns |
| | Returns | : In Income | Returns | : In Income | Returns | : In Income | Returns | : In Income | Returns | : In Income |
| | : Class | : Class | : Class | : Class | : Class | : Class | : Class | : Class | : Class | : Class |
| 1964 | | | 355 | 0.97 % | | | | | | |
| 1965 | | | 285 | 0.62 | | | | | | |
| 1966 | | | 367 | 0.69 | | | | | | |
| 1967 | | | 399 | 0.60 | | | | | | |
| 1968 | | | 538 | 0.65 | | | | | | |
| 1969 | | | 745 | 0.91 | | | | | | |
| 1970 | | | 400 | 0.51 | | | | | | |
| 1971 | | | 300 | 0.33 | | | | | | |
| 1972 | | | 425 | 0.37 | | | | | | |
| 1973 1/ | 739 | 0.46 % | | | | | | | | |
| 1974 2/ | 1,143 | 0.59 | | | 1,867 | 0.90 % | 480 | 0.29 % | | |
| 1975 3/ | 901 | 0.44 | | | 1,785 | 0.82 | 533 | 0.30 | | |
| 1976 4/ | 622 | 0.24 | | | 814 | 0.30 | 477 | 0.22 | | |

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Source: Statistics of Income, except as noted.

1/ Expanded income number and percentage are from the 1973 Treasury tax model.

2/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.

3/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.

4/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ from the information contained in the previously released 1976 Statistics of Income.

Table 3

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$500,000 or Over Under Alternative Concepts

| Year | Returns Selected By | | | | | | | | | |
|--------------------------|-------------------------|---|-------------------------|---|-------------------------|---|-------------------------|---|-------------------------|---|
| | Expanded Income | | Adjusted Gross Income | | Adjusted Gross Income | | Adjusted Gross Income | | Adjusted Gross Income | |
| | : : : : : : | | : : : : : : | | : : : : : : | | : : : : : : | | : : : : : : | |
| | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class |
| 1964 | | | 35 | 2.25 % | | | | | | |
| 1965 | | | 35 | 1.71 | | | | | | |
| 1966 | | | 51 | 2.30 | | | | | | |
| 1967 | | | 63 | 2.15 | | | | | | |
| 1968 | | | 82 | 2.18 | | | | | | |
| 1969 | | | 112 | 3.01 | | | | | | |
| 1970 | | | 21 | 0.88 | | | | | | |
| 1971 | | | 15 | 0.49 | | | | | | |
| 1972 | | | 20 | 0.54 | | | | | | |
| 1973 | | | 22 | 0.62 | | | | | | |
| 1974 1/ | 30 | 0.47 % | 48 | 1.12 | 68 | 1.00 % | 16 | 0.41 % | | |
| 1975 2/ | 39 | 0.61 | 56 | 1.27 | 71 | 1.04 | 27 | 0.67 | | |
| 1976 3/ | 16 | 0.19 | 8 | 0.15 | 20 | 0.22 | 5 | 0.10 | | |
| 1976 retabu- lated 4/ | | | 3 | 0.06 | | | | | | |

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Source: Statistics of Income, except as noted.

1/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.

2/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.

3/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.

4/ See Chapter 6 for an explanation of reason for retabulation.

Table 4

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$1,000,000 or Over Under Alternative Concepts

| Year | Returns Selected By | | | | | | | | | |
|---------------------------------|-------------------------|---|-------------------------|---|--|---|--|---|-------------------------|---|
| | Expanded Income | | Adjusted Gross Income | | Adjusted Gross Income plus Preferences | | Adjusted Gross Income less Investment Interest | | Adjusted Gross Income | |
| | : : : : : : | | : : : : : : | | : : : : : : | | : : : : : : | | : : : : : : | |
| | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class | Number of Returns | Percent of all Returns : In Income : Class |
| 1964 | | | 19 | 3.94 % | | | | | | |
| 1965 | | | 22 | 3.40 | | | | | | |
| 1966 | | | 18 | 2.80 | | | | | | |
| 1967 | | | 23 | 2.75 | | | | | | |
| 1968 | | | 31 | 2.76 | | | | | | |
| 1969 | | | 52 | 4.29 | | | | | | |
| 1970 | | | 3 | 0.47 | | | | | | |
| 1971 | | | 3 | 0.34 | | | | | | |
| 1972 | | | 6 | 0.58 | | | | | | |
| 1973 | | | 7 | 0.78 | | | | | | |
| 1974 <u>1/</u> | 3 | 0.17 % | 12 | 1.09 | 13 | 0.70 % | 2 | 0.20 % | | |
| 1975 <u>2/</u> | 8 | 0.44 | 12 | 1.07 | 17 | 0.88 | 3 | 0.29 | | |
| 1976 <u>3/</u> | 2 | 0.08 | 2 | 0.15 | 4 | 0.15 | 1 | 0.08 | | |
| 1976 Retabu- lated <u>4/</u> | | | 1 | 0.07 | | | | | | |

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Source: Statistics of Income, except as noted.

- 1/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.
2/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.
3/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.
4/ See Chapter 6 for an explanation of reason for retabulation.

in Table 1 for tax returns with income of \$100,000 or over, of \$500,000 or over, and \$1,000,000 or over, respectively. The columns showing nontaxable returns as a percentage of all returns in their income classes indicate that once the \$100,000 level of income is reached, there is no trend, either increasing or decreasing, in this percentage. One might well expect to find a lower proportion of nontaxable returns with income of \$500,000 to a \$1,000,000 than in the \$100,000 to \$200,000 class, but no such pattern is discernible.

Distribution of Effective Tax Rates: Nearly Nontaxables

The preceeding section outlining how a small number of high-income taxpayers are able to entirely escape taxes may give the picture of two very different and clearly distinguishable types of high-income returns: taxables and nontaxables. Such a picture would be misleading. Examination of the distribution of high-income taxpayers by either effective tax rate or by the ratio of their taxable incomes to their total incomes shows a continuum from nontaxable returns to returns with high effective tax rates.

Tables 5 through 8 for 1975 and 1976 show the distributions of taxes paid by high-income taxpayers. Tables 5 and 6 show the distribution of tax returns by effective income tax rates, i.e., tax as a percentage of the relevant measure of income. Tables 7 and 8 show the distributions of actual tax liabilities. On all four tables, the distributions are given for all tax returns, for various income classes, and under all four definitions of income. The tables also show the distributions in terms of the actual numbers of tax returns as well as percentages of all returns in the income class. Examination of Tables 5 and 6 for returns with income of \$200,000 or over indicates that regardless of the income concept used the majority of high-income taxpayers are concentrated in the 30 to 50 percent effective tax rate brackets. If one were to graph the percentage of taxpayers as a function of the effective tax rate, one would find a typical, bell-shaped curve familiar to statisticians and economists. This curve would peak in the 30 to 50 percent effective tax rate range and would fall off sharply with a small tail running down to zero percent for the nontaxables, and another small tail going out toward the maximum possible tax rate. The percentage of returns with low effective tax rates or very low actual

Table 5

Distribution of Tax Returns by Income Class and Effective Tax Rate -- 1976

| Income Concept and Income Class | Total Number of Returns | Number and Percent with No Tax | Number and Percent of Returns by Size of Effective Tax Rate 1/ | | | | | | | | | |
|---|-------------------------------|--------------------------------------|--|------------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| | | | All Returns | Under : 5% With Tax | 5% : 10% : | 10% : 15% : | 15% to : 20% : | 20% to : 25% : | 25% to : 30% : | 30% to : 40% : | 40% to : 50% : | 50% : over : |
| | | | | | | | | | | | | |
| All Returns | | | | | | | | | | | | |
| Expanded Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 1,003,851 (100.0%) | 4,104 (0.4%) | 999,747 (99.6%) | 9,869 (1.0%) | 24,078 (2.4%) | 69,628 (6.9%) | 141,452 (14.1%) | 270,145 (26.9%) | 287,498 (28.6%) | 191,706 (19.1%) | 5,259 (0.5%) | 112 (*) |
| \$ 100,000 to \$200,000 | 204,278 (100.0%) | 533 (0.3%) | 203,745 (99.7%) | 923 (0.4%) | 3,899 (1.9%) | 7,118 (3.5%) | 12,313 (6.0%) | 17,892 (8.8%) | 31,384 (15.4%) | 99,282 (48.6%) | 29,708 (14.5%) | 1,226 (0.6%) |
| \$ 200,000 and over | 53,587 (100.0%) | 89 (0.2%) | 53,498 (99.8%) | 204 (0.4%) | 731 (1.4%) | 2,486 (4.6%) | 2,650 (5.0%) | 4,261 (8.0%) | 6,618 (12.4%) | 17,598 (32.8%) | 14,283 (26.6%) | 4,667 (8.7%) |
| Adjusted Gross Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 948,034 (100.0%) | 3,180 (0.3%) | 944,854 (99.7%) | 9,017 (1.0%) | 15,081 (1.6%) | 33,216 (3.5%) | 106,911 (11.3%) | 255,049 (26.9%) | 291,562 (30.8%) | 224,203 (23.6%) | 9,080 (1.0%) | 735 (0.1%) |
| \$ 100,000 to \$200,000 | 185,142 (100.0%) | 492 (0.3%) | 184,650 (99.7%) | 1,047 (0.6%) | 2,131 (1.2%) | 2,460 (1.3%) | 5,124 (2.8%) | 8,588 (4.6%) | 19,257 (10.4%) | 102,433 (55.3%) | 39,854 (21.5%) | 3,756 (2.0%) |
| \$ 200,000 and over | 41,761 (100.0%) | 68 (0.2%) | 41,693 (99.8%) | 186 (0.4%) | 365 (0.9%) | 627 (1.5%) | 878 (2.1%) | 1,330 (3.2%) | 1,909 (4.6%) | 10,081 (24.1%) | 16,056 (38.4%) | 10,261 (24.6%) |
| Adjusted Gross Income plus Preferences | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 1,021,791 (100.0%) | 4,480 (0.4%) | 1,017,311 (99.6%) | 11,722 (1.2%) | 27,762 (2.7%) | 77,700 (7.6%) | 152,908 (15.0%) | 283,691 (27.8%) | 279,117 (27.3%) | 179,180 (17.5%) | 5,121 (0.5%) | 110 (*) |
| \$ 100,000 to \$200,000 | 212,461 (100.0%) | 700 (0.3%) | 211,761 (99.7%) | 1,708 (0.8%) | 5,333 (2.5%) | 8,007 (3.8%) | 14,113 (6.6%) | 20,492 (9.7%) | 34,615 (16.3%) | 99,135 (46.7%) | 27,210 (12.8%) | 1,148 (0.5%) |
| \$ 200,000 and over | 56,512 (100.0%) | 114 (0.2%) | 56,398 (99.8%) | 313 (0.6%) | 1,345 (2.4%) | 3,082 (5.4%) | 3,059 (5.4%) | 4,890 (8.7%) | 7,182 (12.7%) | 18,279 (32.4%) | 13,928 (24.6%) | 4,320 (7.6%) |
| Adjusted Gross Income less Investment Interest | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 925,833 (100.0%) | 2,721 (0.3%) | 923,112 (99.7%) | 7,400 (0.8%) | 12,126 (1.3%) | 26,410 (2.8%) | 91,419 (9.9%) | 237,400 (25.6%) | 295,971 (32.0%) | 241,376 (26.1%) | 10,096 (1.1%) | 914 (0.1%) |
| \$ 100,000 to \$200,000 | 176,934 (100.0%) | 435 (0.2%) | 176,499 (99.8%) | 667 (0.4%) | 1,452 (0.8%) | 1,827 (1.0%) | 3,878 (2.2%) | 6,618 (3.7%) | 15,627 (8.8%) | 9,811 (55.5%) | 44,127 (24.9%) | 4,192 (2.4%) |
| \$ 200,000 and over | 39,346 (100.0%) | 42 (0.1%) | 39,304 (99.9%) | 101 (0.3%) | 154 (0.4%) | 339 (0.9%) | 612 (1.6%) | 985 (2.5%) | 1,603 (4.1%) | 8,442 (21.5%) | 16,015 (40.7%) | 11,053 (28.1%) |

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Source: 1976 Statistics of Income.

* Less than 0.05 percent.

1/ Income tax after credits including the minimum tax as a percentage of income.

Table 6

Distribution of Tax Returns by Income Class and Effective Tax Rate -- 1975

| Income Concept and Income Class | Total Number of Returns | Number and Percent with No Tax | Number and Percent of Returns by Size of Effective Tax Rate 1/ | | | | | | | | | |
|---|-------------------------------|--------------------------------------|--|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|-------------------|------------------|
| | | | All Returns | Under 5% | 5% to 10% | 10% to 15% | 15% to 20% | 20% to 25% | 25% to 30% | 30% to 40% | 40% to 50% | 50% and over |
| All Returns | | | | | | | | | | | | |
| Expanded Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 807,399 (100.0%) | 4,654 (0.6%) | 802,745 (99.4%) | 12,268 (1.5%) | 27,282 (3.4%) | 40,382 (5.0%) | 101,777 (12.6%) | 208,141 (25.8%) | 239,117 (29.6%) | 168,492 (20.9%) | 5,286 (0.6%) | 0 (0) |
| \$ 100,000 to \$200,000 | 165,269 (100.0%) | 686 (0.4%) | 164,583 (99.6%) | 2,004 (1.2%) | 3,989 (2.4%) | 6,973 (4.2%) | 8,775 (5.3%) | 13,320 (8.1%) | 21,895 (13.3%) | 78,782 (47.7%) | 27,628 (16.7%) | 1,217 (0.7%) |
| \$ 200,000 and over | 40,884 (100.0%) | 215 (0.5%) | 40,669 (99.5%) | 585 (1.4%) | 1,462 (3.6%) | 1,500 (3.7%) | 2,294 (5.6%) | 3,443 (8.4%) | 4,282 (10.5%) | 10,687 (26.1%) | 11,908 (29.1%) | 4,508 (11.0%) |
| Adjusted Gross Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 780,470 (100.0%) | 4,749 (0.6%) | 775,721 (99.4%) | 7,704 (1.0%) | 12,720 (1.6%) | 25,741 (3.3%) | 85,700 (11.0%) | 207,298 (26.6%) | 244,755 (31.4%) | 185,441 (23.8%) | 6,315 (0.8%) | 47 (*) |
| \$ 100,000 to \$200,000 | 152,432 (100.0%) | 709 (0.5%) | 151,723 (99.5%) | 1,491 (1.0%) | 1,942 (1.3%) | 2,643 (1.7%) | 4,221 (2.8%) | 7,619 (5.0%) | 16,982 (11.1%) | 83,071 (54.5%) | 32,118 (21.1%) | 1,636 (1.1%) |
| \$ 200,000 and over | 33,606 (100.0%) | 260 (0.8%) | 33,346 (99.2%) | 504 (1.5%) | 456 (1.4%) | 523 (1.6%) | 759 (2.3%) | 1,083 (3.2%) | 1,596 (4.8%) | 7,654 (22.8%) | 13,307 (39.6%) | 7,464 (22.2%) |
| Adjusted Gross Income plus Preferences | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 821,253 (100.0%) | 6,607 (0.8%) | 814,646 (99.2%) | 14,402 (1.8%) | 29,500 (3.6%) | 44,977 (5.5%) | 111,547 (13.6%) | 218,528 (26.6%) | 233,888 (28.5%) | 156,956 (19.1%) | 4,848 (0.6%) | 0 (0) |
| \$ 100,000 to \$200,000 | 173,888 (100.0%) | 1,423 (0.8%) | 172,465 (99.2%) | 3,814 (2.2%) | 4,639 (2.7%) | 7,780 (4.5%) | 10,339 (6.0%) | 15,353 (8.8%) | 24,274 (13.9%) | 79,921 (46.0%) | 25,228 (14.5%) | 1,117 (0.6%) |
| \$ 200,000 and over | 43,344 (100.0%) | 362 (0.8%) | 42,982 (99.2%) | 1,245 (2.9%) | 1,701 (3.9%) | 1,738 (4.0%) | 2,600 (6.0%) | 3,824 (8.8%) | 4,725 (10.9%) | 11,330 (26.1%) | 11,636 (26.9%) | 4,183 (9.7%) |
| Adjusted Gross Income less Investment Interest | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 762,709 (100.0%) | 3,879 (0.5%) | 758,830 (99.5%) | 5,676 (0.7%) | 9,714 (1.3%) | 21,720 (2.8%) | 75,264 (9.9%) | 191,648 (25.1%) | 246,466 (32.3%) | 201,506 (26.4%) | 6,752 (0.9%) | 84 (*) |
| \$ 100,000 to \$200,000 | 145,330 (100.0%) | 407 (0.3%) | 144,923 (99.7%) | 908 (0.6%) | 1,266 (0.9%) | 1,835 (1.3%) | 3,240 (2.2%) | 5,868 (4.0%) | 13,958 (9.9%) | 80,303 (55.3%) | 35,670 (24.5%) | 1,875 (1.3%) |
| \$ 200,000 and over | 31,391 (100.0%) | 126 (0.4%) | 31,265 (99.6%) | 230 (0.7%) | 239 (0.8%) | 305 (1.0%) | 562 (1.8%) | 800 (2.6%) | 1,230 (3.9%) | 6,575 (21.0%) | 13,296 (42.4%) | 8,028 (25.6%) |

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Source: 1975 Internal Revenue Service tax model

* Less than 0.05 percent.

1/ Income tax after credits including the minimum tax as a percentage of income.

Table 7

Distribution of Tax Returns by Income Class and Total Income Tax -- 1976

| Income Concept and Income Class | Total Number of Returns | Number and Percent with: No Tax | Number and Percent of Returns by Size of Total Income Tax 1/ | | | | | | | | | |
|---|-------------------------------|---------------------------------------|--|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|-------------------|------------------------|
| | | | With Tax | \$1,000 under | \$1,000 under | \$3,000 under | \$4,000 under | \$5,000 under | \$10,000 under | \$25,000 under | \$50,000 under | \$50,000 or more |
| All Returns | 84,670,389 | 20,249,022 | 64,421,367 | 26,964,491 | 25,732,027 | 4,706,219 | 2,385,683 | 3,251,747 | 1,032,333 | 246,323 | 102,544 | |
| Expanded Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 1,003,851 (100.0%) | 4,104 (0.4%) | 999,747 (99.6%) | 2,087 (0.2%) | 6,555 (0.7%) | 7,245 (0.7%) | 6,402 (0.6%) | 124,343 (12.4%) | 735,558 (73.3%) | 117,446 (11.7%) | 111 * | |
| \$100,000 to \$200,000 | 204,278 (100.0%) | 533 (0.3%) | 203,745 (99.7%) | 147 (0.1%) | 164 (0.1%) | 168 (0.1%) | 139 (0.1%) | 2,054 (1.0%) | 22,538 (11.0%) | 125,020 (61.2%) | 53,515 (26.2%) | |
| \$200,000 and over | 53,587 (100.0%) | 89 (0.2%) | 53,498 (99.8%) | 13 * | 19 * | 1 * | 34 (0.1%) | 81 (0.2%) | 632 (1.2%) | 3,813 (7.1%) | 48,905 (91.3%) | |
| Adjusted Gross Income | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 948,034 (100.0%) | 3,180 (0.3%) | 944,854 (99.7%) | 2,051 (0.2%) | 5,727 (0.6%) | 4,743 (0.5%) | 4,175 (0.4%) | 79,505 (8.4%) | 714,412 (75.4%) | 133,922 (14.1%) | 319 * | |
| \$100,000 to \$200,000 | 185,142 (100.0%) | 492 (0.3%) | 184,650 (99.7%) | 129 (0.1%) | 210 (0.1%) | 91 (0.1%) | 238 (0.1%) | 1,466 (0.8%) | 9,856 (5.3%) | 110,605 (59.7%) | 62,055 (33.5%) | |
| \$200,000 and over | 41,761 (100.0%) | 68 (0.2%) | 41,693 (99.8%) | 12 * | 15 * | 1 * | 16 * | 58 (0.1%) | 331 (0.8%) | 1,278 (3.1%) | 39,982 (95.7%) | |
| Adjusted Gross Income plus Preferences | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 1,021,791 (100.0%) | 4,480 (0.4%) | 1,017,311 (99.6%) | 2,622 (0.3%) | 7,778 (0.8%) | 8,249 (0.8%) | 6,940 (0.7%) | 136,202 (13.3%) | 742,953 (72.7%) | 112,457 (11.0%) | 110 * | |
| \$100,000 to \$200,000 | 212,461 (100.0%) | 700 (0.3%) | 211,761 (99.7%) | 150 (0.1%) | 230 (0.1%) | 366 (0.2%) | 413 (0.2%) | 2,893 (1.4%) | 26,593 (12.5%) | 129,054 (60.7%) | 52,062 (24.5%) | |
| \$200,000 and over | 56,512 (100.0%) | 114 (0.2%) | 56,398 (99.8%) | 13 * | 21 * | 12 * | 39 (0.1%) | 105 (0.2%) | 1,079 (1.9%) | 4,770 (8.4%) | 50,359 (89.1%) | |
| Adjusted Gross Income less Investment Interest | | | | | | | | | | | | |
| \$ 50,000 to \$100,000 | 925,833 (100.0%) | 2,721 (0.3%) | 923,112 (99.7%) | 1,722 (0.2%) | 4,913 (0.5%) | 4,124 (0.4%) | 3,254 (0.4%) | 66,251 (7.2%) | 701,494 (75.8%) | 140,970 (15.2%) | 384 * | |
| \$100,000 to \$200,000 | 176,934 (100.0%) | 435 (0.2%) | 176,499 (99.8%) | 109 (0.1%) | 135 (0.1%) | 47 * | 143 (0.1%) | 966 (0.6%) | 7,505 (4.2%) | 103,953 (58.8%) | 63,641 (36.0%) | |
| \$200,000 and over | 39,346 (100.0%) | 42 (0.1%) | 39,304 (99.9%) | 11 * | 14 * | 1 * | 11 * | 28 (0.1%) | 163 (0.4%) | 795 (2.0%) | 38,281 (97.3%) | |

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Source: 1976 Statistics of Income.

* Less than 0.05 percent.

1/ Total income tax is income tax after credits including the minimum tax. It is impossible for tax after credits including the minimum tax to exceed income.

Distribution of Tax Returns by Income Class and Total Income Tax -- 1975

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* Less than 0.05 percent.

1/ Total income tax is income tax after credits including the minimum tax. It is possible for tax after credits including the minimum tax to exceed income.

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liabilities is very small. In 1976, as Table 7 shows, only 1.6 percent of all high expanded income taxpayers paid less than \$25,000 of tax, and over 90 percent paid more than \$50,000.

Tables 9 and 10 classify data by the ratio of taxable income to each of the four definitions of income for high-income returns. Table 9 is for 1976; Table 10 is for 1975. For various classes of ratios of taxable income to total income, the tables show the number of returns in the class; the percentage of the total number of returns which are in that class; and the cumulative percentage of the total in that class. For example, Table 9 shows that 0.90 percent of all returns with expanded income of \$200,000 or over had a ratio of taxable income to expanded income of less than 20 percent.

Table 11 presents in one place the cumulative percentages for 1974, 1975, and 1976. Chart 2 displays the comparison between the cumulative percentages of high expanded income returns for 1975 and 1976 with ratios of taxable income to expanded income of less than a given percentage. Tables 5, 6, 9, 10, and 11 and Chart 2 show very clearly that there is a whole continuum of returns when returns are classified either by effective tax rate or by the ratio of taxable income to total income. It is an oversimplification to try to group returns into just the two categories of taxable or nontaxable.

The data just presented have been used to help define a class of taxpayers who pay some taxes -- and, hence, have not been brought to the public's eye because of their nontaxable status -- but who clearly are not paying their "fair share" of taxes. This group, which may be called the "nearly nontaxables," consists of the small tail of tax returns at the low end of the cumulative distribution of tax returns arrayed by the ratio of taxable income to total income. Chart 2 shows that based on 1976 data, there clearly is a break in the continuum of tax returns when the ratio of taxable income to total income rises above 20 percent. Thus, nearly nontaxable returns are defined as taxable returns having taxable income of less than 20 percent of the relevant income measure. All high-income tax returns fall into one of three categories: nontaxables; nearly nontaxables; or all other taxables.

A substantial portion of the analysis throughout the rest of this report will focus on the differences and similarities between nontaxables and nearly nontaxables. Are

Table 9

Number and Distribution of Tax Returns with Income of \$200,000 or Over
Under Alternative Concepts, Classified by Taxpaying Status -- 1976

| | :Percentage:Cumulative:: | | | :Percentage:Cumulative:: | | |
|--|------------------------------------|---------|---------------|------------------------------------|---------|---------------|
| | : Number of : | of : | :Percentage:: | : Number of : | of : | :Percentage:: |
| | : Returns : | Total : | of Total : | : Returns : | Total : | of Total : |
| | -----Expanded Income----- | | | -----Adjusted Gross Income----- | | |
| All Returns | 53,587 | 100 | % | 41,761 | 100 | % |
| Nontaxable Returns | 99 | 0.17 | 0.17 | 68 | 0.16 | 0.16 |
| Taxable Returns with Ratios of Taxable Income to Income: <u>1</u> / | | | | | | |
| Under 10% | 85 | 0.16 | 0.32 | 87 | 0.21 | 0.37 |
| 10% to 15% | 136 | 0.25 | 0.58 | 105 | 0.25 | 0.62 |
| 15% to 20% | 172 | 0.32 | 0.90 | 219 | 0.52 | 1.15 |
| 20% to 25% | 979 | 1.83 | 2.73 | 229 | 0.55 | 1.70 |
| 25% to 30% | 1,523 | 2.84 | 5.57 | 358 | 0.86 | 2.55 |
| 30% to 40% | 3,462 | 6.46 | 12.03 | 1,095 | 2.62 | 5.17 |
| 40% to 50% | 5,914 | 11.04 | 23.07 | 1,760 | 4.21 | 9.39 |
| 50% and over | 41,227 | 76.93 | 100 | 37,840 | 90.61 | 100 |
| | ----Adjusted Gross Income plus---- | | | ----Adjusted Gross Income less---- | | |
| | Preference | | | Investment Interest | | |
| All Returns | 56,512 | 100 | % | 39,346 | 100 | % |
| Nontaxable Returns | 114 | 0.20 | 0.20 | 42 | 0.11 | 0.11 |
| Taxable Returns with Ratios of Taxable Income to Income: <u>1</u> / | | | | | | |
| Under 10% | 121 | 0.21 | 0.42 | 61 | 0.16 | 0.26 |
| 10% to 15% | 255 | 0.45 | 0.87 | 41 | 0.10 | 0.37 |
| 15% to 20% | 543 | 0.96 | 1.83 | 76 | 0.19 | 0.56 |
| 20% to 25% | 1,299 | 2.30 | 4.13 | 130 | 0.33 | 0.89 |
| 25% to 30% | 1,780 | 3.15 | 7.28 | 212 | 0.54 | 1.43 |
| 30% to 40% | 4,029 | 7.13 | 14.41 | 738 | 1.88 | 3.30 |
| 40% to 50% | 6,591 | 11.66 | 26.07 | 1,321 | 3.36 | 6.66 |
| 50% and over | 41,780 | 73.93 | 100 | 36,723 | 93.34 | 100 |

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Source: 1976 Statistics of Income.

1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

Table 10

Number and Distribution of Tax Returns with Income of \$200,000 or Over
Under Alternative Concepts, Classified by Taxpaying Status -- 1975

| | :Percentage:Cumulative:: | | | :Percentage:Cumulative:: | | |
|--|------------------------------------|---------|---------------|------------------------------------|---------|---------------|
| | : Number of : | of : | :Percentage:: | : Number of : | of : | :Percentage:: |
| | : Returns : | Total : | of Total :: | : Returns : | Total : | of Total :: |
| | -----Expanded Income----- | | | -----Adjusted Gross Income----- | | |
| All Returns | 40,884 | 100 % | | 33,606 | 100 % | |
| Nontaxable Returns | 215 | 0.53 | 0.53% | 260 | 0.77 | 0.77% |
| Taxable Returns with Ratios of Taxable Income to Income: 1/ | | | | | | |
| Under 10% | 286 | 0.70 | 1.23 | 332 | 0.99 | 1.76 |
| 10% to 15% | 336 | 0.82 | 2.05 | 185 | 0.55 | 2.31 |
| 15% to 20% | 787 | 1.92 | 3.97 | 215 | 0.64 | 2.95 |
| 20% to 25% | 946 | 2.31 | 6.29 | 285 | 0.85 | 3.80 |
| 25% to 30% | 876 | 2.14 | 8.43 | 352 | 1.05 | 4.85 |
| 30% to 40% | 2,643 | 6.46 | 14.89 | 670 | 2.59 | 7.44 |
| 40% to 50% | 5,026 | 12.29 | 27.19 | 1,347 | 4.01 | 11.44 |
| 50% and over | 29,769 | 72.81 | 100 | 29,760 | 88.56 | 100 |
| | ----Adjusted Gross Income plus---- | | | ----Adjusted Gross Income less---- | | |
| | Preferences | | | Investment Interest | | |
| All Returns | 43,344 | 100 % | | 31,391 | 100 % | |
| Nontaxable Returns | 362 | 0.84 | 0.84% | 126 | 0.40 | 0.40% |
| Taxable Returns with Ratios of Taxable Income to Income: 1/ | | | | | | |
| Under 10% | 615 | 1.42 | 2.25 | 150 | 0.48 | 0.88 |
| 10% to 15% | 735 | 1.70 | 3.95 | 82 | 0.26 | 1.14 |
| 15% to 20% | 907 | 2.09 | 6.04 | 113 | 0.36 | 1.50 |
| 20% to 25% | 1,029 | 2.37 | 8.42 | 149 | 0.47 | 1.98 |
| 25% to 30% | 1,079 | 2.47 | 10.89 | 201 | 0.64 | 2.62 |
| 30% to 40% | 3,019 | 6.97 | 17.85 | 653 | 2.08 | 4.70 |
| 40% to 50% | 5,356 | 12.36 | 30.21 | 1,041 | 3.32 | 8.01 |
| 50% and over | 30,249 | 69.79 | 100 | 28,876 | 91.99 | 100 |

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Source: 1975 Internal Revenue Service tax model.

1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

Table 11

Comparison Between Cumulative Percentages of Tax Returns Classified by Tax-Paying Status
With Income of \$200,000 and Over Under Alternative Concepts -- 1974-1976

| | :: 1974 | : 1975 | : 1976 | :: 1974 | : 1975 | : 1976 |
|---|------------------------------------|-----------|-----------|------------------------------------|-----------|-----------|
| | -----Expanded Income----- | | | -----Adjusted Gross Income----- | | |
| Returns with ratios of Taxable Income to Income: <u>1/</u> | | | | | | |
| Zero (Nontaxable returns) | 0.39 % | 0.53 % | 0.17 % | 0.68 % | 0.77 % | 0.16 % |
| Less than 10% | 1.16 | 1.23 | 0.32 | 1.95 | 1.76 | 0.37 |
| Less than 15% | 1.73 | 2.05 | 0.58 | 2.52 | 2.31 | 0.62 |
| Less than 20% | 3.38 | 3.97 | 0.90 | 3.17 | 2.95 | 1.15 |
| Less than 25% | 5.54 | 6.29 | 2.73 | 3.86 | 3.80 | 1.70 |
| Less than 30% | 7.75 | 8.43 | 5.57 | 4.85 | 4.85 | 2.55 |
| Less than 40% | 14.94 | 14.89 | 12.03 | 7.70 | 7.44 | 5.17 |
| Less than 50% | 27.79 | 27.19 | 23.07 | 11.78 | 11.44 | 9.39 |
| All Returns | 100 | 100 | 100 | 100 | 100 | 100 |
| | ----Adjusted Gross Income plus---- | | | ----Adjusted Gross Income less---- | | |
| | Preference | | | Investment Interest | | |
| Returns with ratios of Taxable Income to Income: <u>1/</u> | | | | | | |
| Zero (Nontaxable returns) | 0.78 | 0.84 | 0.20 | 0.27 | 0.40 | 0.11 |
| Less than 10% | 2.55 | 2.25 | 0.42 | 0.80 | 0.88 | 0.26 |
| Less than 15% | 3.69 | 3.95 | 0.87 | 1.00 | 1.14 | 0.37 |
| Less than 20% | 5.78 | 6.04 | 1.83 | 1.37 | 1.50 | 0.56 |
| Less than 25% | 8.27 | 8.42 | 4.13 | 1.68 | 1.98 | 0.89 |
| Less than 30% | 10.40 | 10.89 | 7.28 | 2.21 | 2.62 | 1.43 |
| Less than 40% | 18.60 | 17.85 | 14.41 | 4.29 | 4.70 | 3.30 |
| Less than 50% | 31.53 | 30.21 | 26.07 | 7.52 | 8.01 | 6.66 |
| All Returns | 100 | 100 | 100 | 100 | 100 | 100 |

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Source: 1976 Statistics of Income, 1975 Internal Revenue Service tax model, and 1974 Internal Revenue Service tax model.

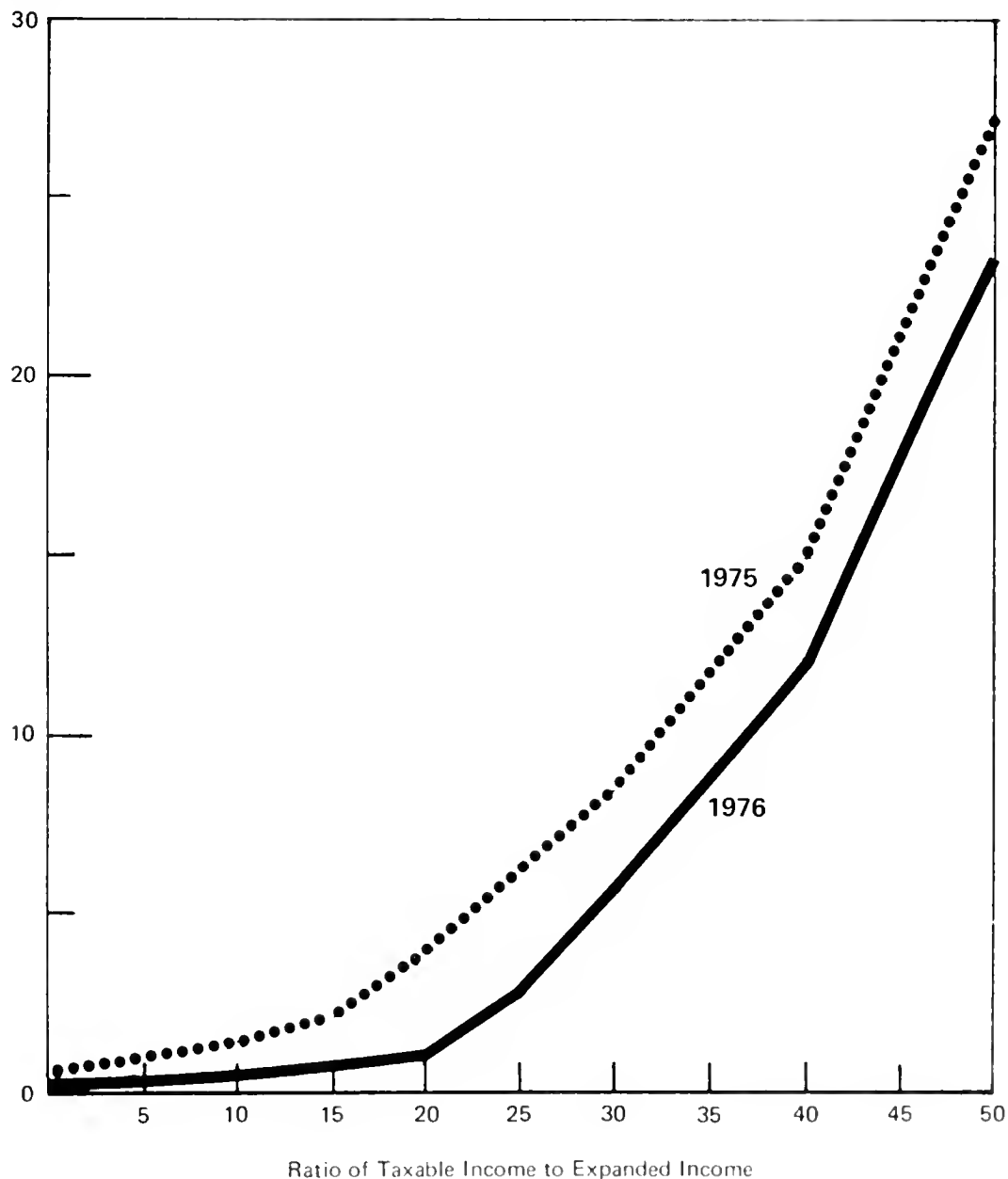
1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

Chart 2

**PERCENTAGES OF TAX RETURNS BY RATIO
OF TAXABLE INCOME TO EXPANDED INCOME
1975 and 1976**

(Expanded Incomes of \$200,000 and over)

Percentage of
Returns



nearly nontaxables similar to nontaxables, similar to all other taxables, or a breed unto themselves?

A Note on Taxable Income

It should be pointed out that in Tables 10 and 11 as well as in all other tables in this report in which the ratio of taxable income to total income is used, taxable income has been modified to take into account the value of tax credits, the minimum tax, and special tax computations such as income averaging, the alternative tax on long term capital gains, and the maximum tax on earned income. If taxable income as ordinarily defined had been used, a taxpayer who had a substantial taxable income but paid very little tax would not have been included among the nearly nontaxables. Thus, taxable income has been redefined as that amount of income which, taxed at ordinary rates, would yield the amount of tax actually shown for the particular return after credits and after imposition of the minimum tax.

An Overview of High Income Tax Returns

For each of the four income concepts (expanded income, AGI, AGI plus preferences, and AGI less investment interest), Tables 12 and 13 show the relative sizes of income as measured by the four income concepts on the basis of expanded income being 100 percent. Table 12 is for 1976; Table 13 is for 1975. A examination of these tables indicates some significant differences between nontaxable and other returns when measured by expanded income. Both investment interest and preferences are relatively more important on nontaxable and nearly nontaxable returns than on other taxable returns. Of course, these are two of the most important items in reducing taxable income under present law, thereby making the returns nontaxable or nearly nontaxable.

The first 8 tables in each of Appendices A, B, and C contain data on preferences, deductions, credits, and taxes. Appendix A is for 1976; Appendix B is for 1975; and Appendix C is for 1974. In each appendix, there are two tables for each income definition. One table contains aggregate data; the other shows each item as a percentage of the income concept used to select the returns shown in the table. Each table contains four separate columns of data: all returns; nontaxable returns; nearly nontaxable returns; and all other taxable returns. These 24 tables include much of the data on which this report is based. Appendices A and B each contain two additional tables that cross-classify the numbers of tax

Table 12

Relationships Between Four Income Concepts for Tax Returns with Income
of \$200,000 or Over Under Alternative Income Concepts -- 1976

| | Returns Selected by | | | |
|--|---------------------|--------------------------|--|--|
| | Expanded Income | Adjusted Gross Income | Adjusted Gross Income plus Preferences | Adjusted Gross Income less Investment Interest |
| -----All Returns----- | | | | |
| EXPANDED INCOME | 100 % | 100 % | 100 % | 100 % |
| Investment interest not in excess of | | | | |
| Investment income | 2.3 | 2.8 | 2.9 | 2.1 |
| Preferences | 24.0 | 19.6 | 24.0 | 19.5 |
| ADJUSTED GROSS INCOME | 78.4 | 83.2 | 79.0 | 82.6 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 102.3 | 102.8 | 102.9 | 102.1 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 76.0 | 80.4 | 76.1 | 80.6 |
| -----Nontaxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 10.7 | 51.1 | 28.2 | 14.0 |
| Preferences | 53.6 | 12.3 | 52.4 | 6.0 |
| ADJUSTED GROSS INCOME | 67.2 | 141.1 | 85.3 | 109.1 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 110.7 | 153.4 | 128.2 | 115.1 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 47.2 | 90.0 | 48.8 | 95.1 |
| -----Nearly Nontaxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 7.5 | 43.0 | 31.0 | 6.8 |
| Preferences | 38.7 | 10.0 | 41.7 | 4.6 |
| ADJUSTED GROSS INCOME | 71.5 | 134.4 | 90.9 | 102.6 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 107.5 | 144.3 | 131.0 | 107.2 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 61.4 | 91.4 | 59.3 | 95.8 |
| -----All Other Taxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 2.2 | 2.4 | 2.3 | 2.0 |
| Preferences | 23.8 | 19.7 | 23.6 | 19.6 |
| ADJUSTED GROSS INCOME | 78.5 | 82.7 | 78.8 | 82.5 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 102.2 | 102.4 | 102.3 | 102.1 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 76.2 | 80.3 | 76.4 | 80.5 |

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Source: 1976 Statistics of Income

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Table 13

Relationships Between Four Income Concepts for Tax Returns with Income
of \$200,000 or Over Under Alternative Income Concepts -- 1975

| | Returns Selected by | | | |
|--|---------------------|----------------|----------------|---------------------|
| | Expanded | Adjusted Gross | Adjusted Gross | Adjusted Gross |
| | Income | Income | Income plus | Income less |
| | | | Preferences | Investment Interest |
| -----All Returns----- | | | | |
| EXPANDED INCOME | 100 % | 100 % | 100 % | 100 % |
| Investment interest not in excess of | | | | |
| Investment income | 2.8 | 3.6 | 3.7 | 2.4 |
| Preferences | 22.0 | 17.9 | 21.9 | 17.5 |
| ADJUSTED GROSS INCOME | 81.0 | 85.8 | 81.9 | 84.9 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 102.8 | 103.7 | 103.7 | 102.4 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 78.1 | 82.2 | 78.2 | 82.5 |
| -----Nontaxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 20.7 | 86.7 | 65.1 | 27.0 |
| Preferences | 46.0 | 10.9 | 43.8 | 8.5 |
| ADJUSTED GROSS INCOME | 83.5 | 177.9 | 128.7 | 119.3 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 120.7 | 188.8 | 165.1 | 127.8 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 54.6 | 91.2 | 57.7 | 92.4 |
| -----Nearly Nontaxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 15.1 | 43.6 | 23.3 | 18.6 |
| Preferences | 57.5 | 26.5 | 56.1 | 19.1 |
| ADJUSTED GROSS INCOME | 58.5 | 119.4 | 67.9 | 101.7 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 115.1 | 146.0 | 123.3 | 120.7 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 43.2 | 75.8 | 44.7 | 83.0 |
| -----All Other Nontaxable Returns----- | | | | |
| EXPANDED INCOME | 100 | 100 | 100 | 100 |
| Investment interest not in excess of | | | | |
| Investment income | 2.0 | 2.3 | 2.1 | 2.0 |
| Preferences | 20.0 | 17.7 | 19.7 | 17.5 |
| ADJUSTED GROSS INCOME | 82.1 | 84.6 | 82.5 | 84.5 |
| ADJUSTED GROSS INCOME PLUS PREFERENCES | 102.0 | 102.4 | 102.1 | 102.1 |
| ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST | 80.0 | 82.3 | 80.4 | 82.5 |

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Source: 1975 Internal Revenue Service tax model.

returns by income classes under each combination of the four income definitions. One table is for all returns; the other is for nontaxable returns. Using these tables, one can determine, for example, how many of the high expanded income nontaxables are also high AGI nontaxables.

Analysis of Tables 76-2, 76-4, 75-2, and 75-4 in the appendices shows the basic similarity between nontaxables and nearly nontaxables and their differences from all other taxables in 1975 and 1976. These similarities and differences will be discussed in detail in Chapter 5. In most cases where there is a substantial difference between nontaxables and all other taxables, the nontaxables show essentially the same characteristics as the nearly nontaxables. When defined by expanded income, nontaxables and nearly nontaxables have large shares of their income in the form of preferences, but when defined by AGI, they both have smaller shares. To some degree, this is expected since preferences are fully included in expanded income whereas they are excluded from AGI. Thus, it is more difficult to become a high AGI return on the basis of preference items alone.

It should be pointed out that if a return did have large amounts of preference income and no ordinary tax liability, it would be subject to the minimum tax and, therefore, would no longer be nontaxable. As already noted, in both 1975 and 1976, high expanded income nontaxables had a large share of their income in the form of tax preferences. With such large tax preferences, and no ordinary tax liability, how did these returns escape the minimum tax? It is probable that the minimum tax was avoided as a result of the "no tax benefit rule" which provides that if the preference income does not reduce ordinary taxes then it is not subject to the minimum tax. Table 76-2 in Appendix A and Table 75-2 in Appendix B show that, especially in 1976, these returns had more itemized deductions than they needed to reduce AGI to zero. Thus, in many cases including additional preference income in AGI would not have increased tax liabilities. Also, as explained in detail in Chapter 6, it is likely that in 1976 many of these returns were subject to the minimum tax but failed to report their liabilities on their tax returns.

Despite the publicity given to high-income, nontaxable returns, most taxpayers with income of \$200,000 or more (however that income is measured) pay substantial Federal income taxes. It has already been mentioned that in 1976 over 90 percent of all high expanded income taxpayers had

liabilities of at least \$50,000. Tables 14 and 15 summarize the tax status of high-income taxpayers in 1975 and 1976. For the four income measures, the tables show the average income, tax, and effective tax rate for all returns, nontaxables, nearly nontaxables, and all other taxables. In 1976, the average tax for all high expanded income returns was \$145,000 or 35 percent of expanded income. This represented an increase over 1975 of \$20,000 per return, or 5 percentage points in the effective tax rate. The average tax rate for the nearly nontaxables is only about one fifth of the rate for the all other taxables; their effective tax rate is much closer to that of the nontaxables than to that of the all other taxables.

Average income for the nontaxables was about 10 percent lower than for the group as a whole. Average income for the nearly nontaxables was about one and one-half times that of the whole group. There does not appear to be a simple explanation for the higher average income of the nearly nontaxable group.

Summary

Although there are some differences between nontaxables and nearly nontaxable, these differences are relatively small compared with the major difference between these two groups on the one hand and all other taxables on the other hand. The similarities between the two groups and their differences from other taxables can best be seen by examining the importance of several items shown in the appendix tables: tax preferences; investment interest; charitable contributions; miscellaneous deductions; casualty losses; and the foreign tax credit.

The similarity of nearly nontaxable high-income returns to nontaxable high-income returns indicates that the characteristics of nontaxable returns are not unique. They only represent extreme cases of returns with low ratios of taxable income (as adjusted) to expanded income. The importance of this observation is that tax policies which are designed to eliminate high-income nontaxable returns may address only part of the problem of high-income individuals not paying a fair share of taxes.

Average Income, Average Income Tax, and Average Tax Rate for Tax Returns
with Income of \$200,000 and Over Under Alternative Concepts -- 1976

| Taxpaying Class and Income Concept Used to Classify Returns | : : Number of : Returns | : : Average : Income : (per Income : Concept) | : : Average : Income : Expanded | : : Average : Total : Tax | : : Effective Tax Rate : per : Income : Concept : per : Expanded : Income |
|--|-------------------------------|---|--|------------------------------------|--|
| <u>Expanded Income</u> | | | | | |
| All Returns | 53,587 | \$413,617 | \$413,617 | \$144,942 | 35.0% |
| Nontaxable Returns | 89 | 350,427 | 350,426 | 0 | 0 |
| Nearly Nontaxable Returns | 393 | 613,842 | 613,842 | 43,583 | 7.1 |
| All Other Taxable Returns | 53,105 | 412,241 | 412,241 | 145,936 | 35.4 |
| <u>Adjusted Gross Income</u> | | | | | |
| All Returns | 41,761 | 376,712 | 452,650 | 167,656 | 44.5 |
| Nontaxable Returns | 68 | 342,456 | 242,765 | 0 | 0 |
| Nearly Nontaxable Returns | 411 | 530,297 | 395,679 | 30,757 | 5.8 |
| All Other Taxable Returns | 41,282 | 375,239 | 453,573 | 169,296 | 45.1 |
| <u>Adjusted Gross Income plus Preferences</u> | | | | | |
| All Returns | 56,512 | 412,873 | 401,388 | 139,993 | 33.9 |
| Nontaxable Returns | 114 | 370,158 | 288,790 | 0 | 0 |
| Nearly Nontaxable Returns | 919 | 605,672 | 462,172 | 44,498 | 7.4 |
| All Other Taxable Returns | 55,479 | 409,767 | 400,613 | 141,863 | 34.6 |
| <u>Adjusted Gross Income less Investment Interest</u> | | | | | |
| All Returns | 39,346 | 375,988 | 466,644 | 174,066 | 46.3 |
| Nontaxable Returns | 42 | 321,595 | 338,190 | 0 | 0 |
| Nearly Nontaxable Returns | 178 | 483,478 | 504,798 | 21,916 | 4.5 |
| All Other Taxable Returns | 39,126 | 375,558 | 466,608 | 174,945 | 46.6 |

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Source: 1976 Statistics of Income.

Table 15

Average Income, Average Income Tax, and Average Tax Rate for Tax Returns
with Income of \$200,000 and Over Under Alternative Concepts -- 1975

| Taxpaying Class and Income Concept Used to Classify Returns | : : Number of : Returns | : : Average : (per Income: : Concept) | : : Average : Income: : Expanded | : : Average : Total : Tax | : : Effective Tax Rate : per : Income : Concept : Expanded : Income |
|--|-------------------------------|--|---|------------------------------------|---|
| <u>Expanded Income</u> | | | | | |
| All Returns | 40,884 | \$412,202 | \$412,202 | \$124,412 | 30.2% |
| Nontaxable Returns | 215 | 377,260 | 377,260 | 0 | 0 |
| Nearly Nontaxable Returns | 1,409 | 585,061 | 585,061 | 38,505 | 6.6 |
| All Other Taxable Returns | 39,260 | 406,190 | 406,190 | 146,516 | 36.1 |
| <u>Adjusted Gross Income</u> | | | | | |
| All Returns | 33,606 | 377,395 | 439,787 | 160,356 | 42.5 |
| Nontaxable Returns | 260 | 450,385 | 253,112 | 0 | 0 |
| Nearly Nontaxable Returns | 732 | 522,967 | 437,803 | 15,251 | 2.9 |
| All Other Taxable Returns | 32,614 | 373,546 | 441,320 | 164,738 | 44.1 |
| <u>Adjusted Gross Income plus Preferences</u> | | | | | |
| All Returns | 43,344 | 413,254 | 398,425 | 136,322 | 33.0 |
| Nontaxable Returns | 362 | 436,122 | 264,174 | 0 | 0 |
| Nearly Nontaxable Returns | 2,257 | 551,326 | 447,293 | 30,793 | 5.6 |
| All Other Taxable Returns | 40,725 | 405,399 | 396,910 | 143,382 | 35.4 |
| <u>Adjusted Gross Income less Investment Interest</u> | | | | | |
| All Returns | 31,391 | 375,534 | 454,984 | 167,922 | 44.7 |
| Nontaxable Returns | 126 | 376,738 | 407,952 | 0 | 0 |
| Nearly Nontaxable Returns | 345 | 493,962 | 595,093 | 22,368 | 4.5 |
| All Other Taxable Returns | 30,900 | 374,450 | 453,906 | 170,340 | 45.5 |

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Source: 1975 Internal Revenue Service tax model.

Chapter 5

Avoiding Taxes: Exclusions, Deductions, Credits, and Other Devices

How did people with expanded income or AGI of \$200,000 or more avoid paying any Federal individual income tax? Since the data indicate basic similarities between nontaxable and nearly nontaxable returns, an analysis of the reasons why nontaxable returns are nontaxable should also illuminate the methods used to reduce taxes on nearly nontaxable returns.

Basically, there are four means by which high-income persons may substantially reduce or eliminate their income taxes: (1) tax preference income which is omitted from the tax base; (2) deductions in calculating taxable income; (3) special tax computations; and (4) credits against tax. Since tax preference income is already omitted from AGI, traditional methods for analyzing reasons for nontaxability of high AGI returns have tended to understate the importance of tax preference income.

Attributing Nontaxability: Methodology

There are three approaches to analyzing the reasons for nontaxability (and near nontaxability). The first shows the largest single item of deduction or credit on each return. The second approach again treats each deduction or credit separately and gives its size relative to income. The third approach aggregates data for all returns in the group and shows the total value for each deduction or credit.

In many of the reviews of high-income nontaxable returns undertaken since the late 1960's, the largest single deduction or credit item on the return has been given as the reason for the return's nontaxability. However, it is not typical for any one deduction or credit to be large enough by itself to eliminate entirely a person's income tax. Ordinarily, nontaxability is produced by a combination of items, none of which taken alone may be extraordinarily large. Moreover, attributing nontaxability to the single largest item disregards the size of the largest item both in absolute terms and in relation to the total income on a return. If a return has many different deductions and credits, even the largest one may be relatively small. On

the other hand, if only a few provisions are used and the return is nontaxable, even the second or third largest item may be very significant. The largest item method would count the largest, but still small item on the first return but ignore the second largest, but still very large item on the second return. There are, therefore, deficiencies in this approach.

For comparability with earlier analyses, Tables 16 and 17 show the number of and percentages of the total number of returns on which particular a deduction or credit item was the largest item. Table 16 is for 1976; Table 17 is for 1975. These tables contain significantly more data than those available or prior years. In addition to showing the information for nontaxable returns, similar data is also shown for taxable returns. ^{1/} The comparable data for taxable returns permits the importance of various deductions to be put in perspective. Whether an item is more or less important on nontaxable than on taxable returns may be of more significance than its absolute importance. These two tables also contain data for the high income returns under all four definitions of income. This is the first time such information has been presented for other than high AGI returns.

Another means of determining the importance of various deductions or credits is to show the value of each deduction and credit as a percentage of income. If the percentages of income are made into a few categories, e.g., less than 10 percent of income, 10 percent to 20 percent of income, etc., the number and/or the share of deductions falling into these categories can be determined for a group of returns. This method has the advantage of providing two pieces of data for each deduction or credit used: whether or not the provision was used; and, if used, its importance relative to income. For nontaxable returns, this method shows the frequency with which a particular credit or deduction is large enough so that nontaxability can reasonably be attributed to it alone. However, this method only illuminates the importance of each deduction or credit separately; it does not provide information on how frequently particular combinations of deductions and/or credits appear on a single tax return.

^{1/} To avoid unnecessary complexity in the tables, only the percentage distribution and not the actual count is shown for taxable returns.

Table 16

Largest Deduction or Credit on Tax Returns with Income of \$200,000 or Over,
Under Alternative Income Concepts -- 1976

| Largest Item | | 1/ | :: Nontaxable Returns :: | | Taxable Returns :: | | Nontaxable Returns :: | | Taxable Returns :: | |
|--|--|----|--------------------------|---------------|--------------------|---------------|-----------------------|---------------|--------------------|---------------|
| | | | Number : | Percentage :: | Percentage :: | Percentage :: | Number : | Percentage :: | Percentage :: | Percentage :: |
| -----Expanded Income----- | | | | | | | | | | |
| -----Adjusted Gross Income----- | | | | | | | | | | |
| Interest Paid Deduction | | 2/ | 18 | 20.2 % | 4.2 % | | 31 | 45.6 % | | 14.6 % |
| Taxes Paid Deduction | | | 2 | 2.2 | 55.2 | | 1 | 1.5 | | 50.4 |
| Contributions Deduction | | | 19 | 21.3 | 23.8 | | 5 | 7.4 | | 22.6 |
| Medical Expense Deduction | | | -- | -- | 1.0 | | -- | -- | | 0.8 |
| Casualty Loss Deduction | | | 22 | 24.7 | 0.3 | | 6 | 8.8 | | 0.3 |
| Miscellaneous Deduction | | | 14 | 15.7 | 6.5 | | 11 | 16.2 | | 5.1 |
| Foreign Tax Credit | | | 14 | 15.7 | 1.3 | | 14 | 20.6 | | 1.0 |
| Investment Credit | | | -- | -- | 6.4 | | -- | -- | | 4.6 |
| All Other Preference Credits | | 3/ | -- | -- | 1.2 | | -- | -- | | 0.6 |
| TOTAL | | | 89 | 100 % | 100 % | | 68 | 100 % | | 100 % |
| -----AGI plus Preferences----- | | | | | | | | | | |
| -----AGI less Investment Interest----- | | | | | | | | | | |
| Interest Paid Deduction | | 2/ | 45 | 39.5 % | 16.4 % | | 7 | 16.7 % | | 3.9 % |
| Taxes Paid Deduction | | | 1 | 0.9 | 47.9 | | 1 | 2.4 | | 57.0 |
| Contributions Deduction | | | 21 | 18.4 | 21.5 | | 3 | 7.1 | | 24.7 |
| Medical Expense Deduction | | | -- | -- | 0.9 | | -- | -- | | 0.9 |
| Casualty Loss Deduction | | | 22 | 19.3 | 0.3 | | 6 | 14.3 | | 0.4 |
| Miscellaneous Deduction | | | 11 | 9.6 | 5.3 | | 11 | 26.2 | | 6.1 |
| Foreign Tax Credit | | | 14 | 12.3 | 1.2 | | 14 | 33.3 | | 1.0 |
| Investment Credit | | | -- | -- | 5.5 | | -- | -- | | 5.4 |
| All Other Preference Credits | | 3/ | -- | -- | 1.1 | | -- | -- | | 0.7 |
| TOTAL | | | 114 | 100 % | 100 % | | 42 | 100 % | | 100 % |

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Source: 1976 Statistics of Income.

- 1/ On returns with both large itemized deductions and large credits, the largest deduction or credit was determined by omitting the largest deduction, recomputing the tax, and comparing the resulting tax to the largest credit.
- 2/ Adjusted for any interest which may already have been deducted in the calculation of income.
- 3/ Includes credit for the elderly, child care credit, investment credit, work incentive (WIN) credit, foreign tax credit, credit for contributions to candidates for public office, new residence credit, and earned income credit.

Table 17

Largest Deduction or Credit on Tax Returns with Income of \$200,000 or Over
Under Alternative Income Concepts -- 1975

| Largest Item | 1/ | :: Nontaxable Returns :: | | Taxable Returns :: | | Nontaxable Returns :: | | Taxable Returns | |
|---|----|--------------------------|------------|--------------------|------------|-----------------------|------------|-----------------|------------|
| | | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| -----Expanded Income-----Adjusted Gross Income----- | | | | | | | | | |
| Interest Paid Deduction | 2/ | 80 | 37.2 % | 3.9 % | 163 | 62.7 % | 15.3 % | | |
| Taxes Paid Deduction | | 28 | 13.0 | 54.7 | 17 | 6.5 | 48.7 | | |
| Contributions Deduction | | 34 | 15.8 | 24.2 | 24 | 9.2 | 22.8 | | |
| Medical Expense Deduction | | -- | -- | 1.1 | -- | -- | 0.7 | | |
| Casualty Loss Deduction | | 13 | 6.1 | 0.3 | 8 | 3.1 | 0.3 | | |
| Miscellaneous Deduction | | 43 | 20.0 | 6.7 | 35 | 13.5 | 5.1 | | |
| Foreign Tax Credit | | 13 | 6.1 | 0.9 | 13 | 5.0 | 0.9 | | |
| Investment Credit | | 4 | 1.9 | 6.8 | -- | -- | 5.5 | | |
| All Other Preference Credits 3/ | | -- | -- | 1.4 | -- | -- | 0.8 | | |
| TOTAL | | 215 | 100 % | 100 % | 260 | 100 % | 100 % | | |
| -----AGI plus Preferences-----AGI less Investment Interest----- | | | | | | | | | |
| Interest Paid Deduction | 2/ | 232 | 64.1 % | 17.1 % | 41 | 32.5 % | 3.7 % | | |
| Taxes Paid Deduction | | 22 | 6.1 | 47.0 | 14 | 11.1 | 55.6 | | |
| Contributions Deduction | | 29 | 8.0 | 21.6 | 24 | 19.1 | 25.2 | | |
| Medical Expense Deduction | | -- | -- | 0.9 | -- | -- | 0.8 | | |
| Casualty Loss Deduction | | 15 | 4.1 | 0.3 | 6 | 4.8 | 0.3 | | |
| Miscellaneous Deduction | | 47 | 13.0 | 5.2 | 28 | 22.2 | 6.3 | | |
| Foreign Tax Credit | | 13 | 3.6 | 0.9 | 13 | 10.3 | 1.0 | | |
| Investment Credit | | 4 | 1.1 | 5.7 | -- | -- | 6.3 | | |
| All Other Preference Credits 3/ | | -- | -- | 1.3 | -- | -- | 0.9 | | |
| TOTAL | | 362 | 100 % | 100 % | 126 | 100 % | 100 % | | |

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Source: 1975 Internal Revenue Service Tax Model.

1/ On returns with both large itemized deductions and large credits, the largest deduction or credit was determined by omitting the largest deduction, recomputing the tax, and comparing the resulting tax to the largest credit.

2/ Adjusted for any interest which may already have been deducted in the calculation of income.

3/ Includes retirement income credit, investment credit, work incentive (WIN) credit, foreign tax credit, credit for contributions to candidates for public office, new residence credit, and earned income credit.

Tables 18 through 25 present itemized deductions as a whole and each itemized deduction and major tax credit separately as a percentage of income. Each line of these tables shows the total number of returns which used the particular deduction or credit at all and the relative importance of each deduction as a percentage of income. These tables also provide separate distributions for investment interest not in excess of investment income and for investment interest in excess of investment income. Tables 18 through 21 are for 1976; Tables 22 through 25 are for 1975. For each year, there is a separate table for high-income nontaxable returns selected by each of the four definitions of income.

A third method of examining how returns are made nearly or completely nontaxable is to calculate the average impact of a particular provision in reducing income or taxes for a group of taxpayers. This method is simple and straightforward. It can also be used to show the effect of particular provisions on average or aggregate tax liabilities. However, it does have the disadvantage of averaging data that may be widely disparate so that differences among returns are obscured. If 50 returns were to make extensive use of a provision and 50 others did not use that provision at all, average or aggregate data would indicate moderate use even though not a single return in the group used the provision moderately.

Aggregate income, preferences, deductions, credits, and taxes for 1976 returns with incomes of \$200,000 or more are shown in the first eight tables in Appendix A. There are two tables for each of the four income definitions. The first table contains aggregate data; on the second table, all items are shown as percentages of income. Each table has data for all returns, nontaxable returns, nearly nontaxable returns, and all other taxable returns. The percentage tables facilitate comparisons among the nontaxable, nearly nontaxable, and all other taxable columns. Data for 1975 and for 1974 are contained in analogous tables in Appendices B and C, respectively.

How to Make a Return Nontaxable

All three of the approaches described in the preceeding section may be used together to analyze the reasons for nontaxability. However, because of serious data problems, only qualified conclusions can be drawn from analysis of the 1976 data. Apparently, at least half of the 1976 high-income

Table 18

Itemized Deductions and Credits as Percentages of Expanded Income for
Nontaxable Returns with Expanded Income of \$200,000 or Over -- 1976

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | | |
|---|--|-----|-----|-----|-----|-----|-----|-----|------|------|----|
| | : Total : Deduction or Credit as Percentage of Expanded Income | | | | | | | | | | |
| | : of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : or | | | | | | | | | | |
| | :Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | more | 1/ |
| All Returns | 89 | | | | | | | | | | |
| Itemized deductions, total..... | 79 | 14 | 3 | | | 3 | | 22 | 37 | | |
| Medical deduction | 52 | 51 | | | 1 | | | | | | |
| Taxes paid deduction | 71 | 60 | 6 | 2 | 2 | | | 1 | | | |
| Contributions deduction | 64 | 43 | | | 1 | 3 | | 2 | 15 | | |
| Interest deduction | 17 | 9 | 1 | | | | 1 | 4 | 2 | | |
| Casualty loss deduction | 23 | 1 | | | | | | 1 | 18 | 3 | |
| Miscellaneous deduction | 54 | 33 | 4 | 5 | 1 | | 1 | 2 | 8 | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | 14 | | | | | | | 1 | 13 | | |
| Investment credit | 3 | 2 | 1 | | | | | | | | |
| All other preference credits. | 1 | 1 | | | | | | | | | |
| Memo: Investment interest in excess of investment income <u>2/</u> | 10 | 4 | | | | | 1 | 3 | 2 | | |

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding expanded income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 19

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for
Nontaxable Returns with Adjusted Gross Income of \$200,000 or Over -- 1976

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | |
|------------------------------------|--|-----|-----|-----|-----|-----|-----|-----|------|----------|
| | : Total : Deduction or Credit as Percentage of Adjusted Gross Income | | | | | | | | | |
| | : of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : or | | | | | | | | | |
| | :Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | :more 1/ |
| All Returns | 68 | | | | | | | | | |
| Itemized deductions, total | 68 | 11 | 2 | 1 | | | 1 | 11 | 42 | |
| Medical deduction | 29 | 27 | | | 1 | 1 | | | | |
| Taxes paid deduction | 60 | 48 | 8 | 3 | | | | 1 | | |
| Contributions deduction | 53 | 42 | 2 | 1 | 5 | | 2 | 1 | | |
| Interest deduction | 54 | 13 | 6 | 3 | 1 | | 1 | 12 | 18 | |
| Casualty loss deduction | 10 | 4 | | | | | 1 | 2 | 3 | |
| Miscellaneous deduction | 56 | 33 | 9 | 3 | | | 1 | 2 | 8 | |
| Deduction Equivalent of: | | | | | | | | | | |
| Foreign tax credit | 15 | 1 | | | | | 1 | 13 | | |
| Investment credit | 8 | 5 | 1 | 2 | | | | | | |
| All other preference credits. | 2 | 2 | | | | | | | | |
| Memo: Investment Interest: 2/ | | | | | | | | | | |
| Not in excess of investment | | | | | | | | | | |
| income | 49 | 14 | 5 | 3 | 1 | 3 | 6 | 3 | 8 | 6 |
| In excess of investment | | | | | | | | | | |
| income | 28 | 6 | 4 | 2 | 4 | 3 | 1 | 6 | 2 | |

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 20

Itemized Deductions and Credits as Percentages of Adjusted Gross Income plus Preferences for
Nontaxable Returns with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | | |
|---|--|-----|-----|-----|-----|-----|-----|-----|------|------|----|
| | : Total : Deduction or Credit as Percentage of AGI Plus Preferences | | | | | | | | | | |
| | : of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : under : or | | | | | | | | | | |
| | Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | more | 1/ |
| All Returns | 114 | | | | | | | | | | |
| Itemized deductions, total | 104 | 13 | 2 | 1 | | | 1 | 6 | 26 | 55 | |
| Medical deduction | 64 | 62 | | | 1 | 1 | | | | | |
| Taxes paid deduction | 96 | 81 | 11 | 3 | | | | | 1 | | |
| Contributions deduction | 88 | 62 | 2 | 2 | 4 | 2 | | | 1 | 15 | |
| Interest deduction | 75 | 31 | 6 | 6 | 1 | | 2 | 1 | 12 | 16 | |
| Casualty loss deduction | 26 | 4 | | | | | | 1 | 18 | 3 | |
| Miscellaneous deduction | 76 | 50 | 9 | 6 | | | 1 | | 2 | 8 | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | 15 | 1 | | | | | | 1 | 13 | | |
| Investment credit | 8 | 5 | 1 | 2 | | | | | | | |
| All other preference credits. | 2 | 2 | | | | | | | | | |
| Memo: Investment interest in excess of investment income <u>2/</u> | 26 | 6 | 4 | 2 | 3 | 3 | | | 6 | 2 | |

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Source: 1976 Statistics of Income.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income plus preferences.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 21

Itemized Deductions and Credits as Percentages of Adjusted Gross Income less Investment Interest for Nontaxable Returns with Adjusted Gross Income less Investment Interest of \$200,000 or Over -- 1976

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | |
|---|--|---|---------|---------|---------|---------|---------|---------|----------|---------|
| | : Total : | Deduction or Credit as Percentage of AGI less Investment Interest | | | | | | | | |
| | : of : | : 10% : | : 20% : | : 30% : | : 40% : | : 50% : | : 60% : | : 70% : | : 100% : | |
| | : Number: | Under : | under : | under : | under : | under : | under : | under : | or | |
| | :Returns: | 10% : | 20% : | 30% : | 40% : | 50% : | 60% : | 70% : | 100% : | more 1/ |
| All Returns | 42 | | | | | | | | | |
| Itemized deductions, total | 42 | 11 | 3 | | | | | 5 | 23 | |
| Medical deduction | 17 | 16 | | | 1 | | | | | |
| Taxes paid deduction | 34 | 26 | 3 | 2 | 2 | | | 1 | | |
| Contributions deduction | 28 | 22 | | | 1 | 2 | 1 | 2 | | |
| Interest deduction | 16 | 8 | 1 | | | | | 4 | 3 | |
| Casualty loss deduction | 7 | 1 | | | | | | 1 | 2 | 3 |
| Miscellaneous deduction | 34 | 16 | 4 | 2 | 1 | | 1 | 2 | 8 | |
| Deduction Equivalent of: | | | | | | | | | | |
| Foreign tax credit | 14 | | | | | | | 1 | 13 | |
| Investment credit | 3 | 2 | 1 | | | | | | | |
| All other preference credits. | 1 | 1 | | | | | | | | |
| Memo: Investment interest in excess of investment income <u>2/</u> | 10 | 4 | | | | | | 3 | 3 | |

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income less investment interest.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 22

Itemized Deductions and Credits as Percentages of Expanded Income for Nontaxable
Returns with Expanded Income of \$200,000 or Over -- 1975

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | |
|--|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Deduction or Credit as Percentage of Expanded Income | | | | | | | | | |
| | of : | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | |
| | Number: Under : | under : | under : | under : | under : | under : | under : | under : | under : | or |
| | Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | more 1/ |
| All Returns | 215 | | | | | | | | | |
| Itemized deductions, total | 172 | 19 | 7 | 1 | 5 | 8 | 6 | 9 | 38 | 79 |
| Medical deduction | 74 | 68 | 5 | | 1 | | | | | |
| Taxes paid deduction | 162 | 95 | 29 | 16 | 7 | 2 | 5 | 2 | 5 | 1 |
| Contributions deduction | 153 | 89 | 8 | 13 | 13 | 12 | 15 | 1 | 2 | |
| Interest deduction | 94 | 43 | 5 | 1 | 4 | 4 | 5 | 2 | 17 | 13 |
| Casualty loss deduction | 26 | 11 | 2 | | | | | | 2 | 11 |
| Miscellaneous deduction | 143 | 63 | 20 | 10 | 8 | 16 | 8 | 4 | 8 | 6 |
| Deduction Equivalent of: | 51 | 20 | 11 | 7 | | 1 | | 1 | 11 | |
| Foreign tax credit | 25 | 6 | 3 | 3 | | 1 | | 1 | 11 | |
| Investment credit | 31 | 19 | 9 | 3 | | | | | | |
| All other preference credits. | 2 | 2 | | | | | | | | |
| Memo: Investment interest in excess of investment income 2/ | 56 | 10 | 3 | | 3 | 4 | 4 | 2 | 17 | 13 |

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding expanded income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 23

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for Nontaxable
Returns with Adjusted Gross Income of \$200,000 or Over -- 1975

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | |
|---|--|-----|-----|-----|-----|-----|-----|-----|------|----------|
| | : Total : Deduction or Credit as Percentage of Adjusted Gross Income | | | | | | | | | |
| | : of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : or | | | | | | | | | |
| | :Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | :more 1/ |
| All Returns | 260 | | | | | | | | | |
| Itemized deductions, total | 256 | 3 | 4 | 1 | | 1 | | 4 | 70 | 173 |
| Medical deduction | 123 | 117 | 4 | 1 | 1 | | | | | |
| Taxes paid deduction | 253 | 184 | 34 | 13 | 9 | 2 | 2 | 2 | 6 | 1 |
| Contributions deduction | 242 | 146 | 22 | 19 | 29 | 13 | 13 | | | |
| Interest deduction | 246 | 41 | 17 | 9 | 12 | 13 | 8 | 19 | 74 | 53 |
| Casualty loss deduction | 29 | 20 | 1 | | | | 1 | | 2 | 5 |
| Miscellaneous deduction | 226 | 128 | 31 | 21 | 10 | 8 | 7 | 4 | 8 | 9 |
| Deduction Equivalent of: | 65 | 33 | 10 | 6 | 3 | | 1 | 1 | 11 | |
| Foreign tax credit | 35 | 13 | 3 | 3 | 3 | | 1 | 1 | 11 | |
| Investment credit | 39 | 30 | 6 | 3 | | | | | | |
| All other preference credits. | 5 | 5 | | | | | | | | |
| Memo: Investment interest: <u>2/</u> | | | | | | | | | | |
| Not in excess of investment Income | 238 | 52 | 30 | 21 | 18 | 15 | 14 | 21 | 60 | 7 |
| In excess of investment Income | 119 | 21 | 11 | 10 | 18 | 14 | 11 | 6 | 18 | 10 |

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Source: 1975 Internal Revenue Service tax model.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 24

Itemized Deductions and Credits as Percentages of Adjusted Gross Income Plus Preferences for Nontaxable Returns with Adjusted Gross Income Plus Preferences of \$200,000 or Over -- 1975

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | | |
|--|--|-----|-----|-----|-----|-----|-----|-----|------|-------|----|
| | : Total : Deduction or Credit as Percentage of AGI plus Preferences | | | | | | | | | | |
| | : of : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : or | | | | | | | | | | |
| | :Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | :more | 1/ |
| All Returns | 362 | | | | | | | | | | |
| Itemized deductions, total | 319 | 12 | 11 | 8 | 5 | 10 | 6 | 6 | 110 | 151 | |
| Medical deduction | 143 | 137 | 5 | | 1 | | | | | | |
| Taxes paid deduction | 309 | 233 | 38 | 16 | 6 | 5 | 2 | 2 | 6 | 1 | |
| Contributions deduction | 295 | 196 | 26 | 29 | 19 | 25 | | | | | |
| Interest deduction | 291 | 52 | 27 | 21 | 18 | 12 | 11 | 16 | 83 | 51 | |
| Casualty loss deduction | 44 | 29 | | | | | 1 | | 4 | 10 | |
| Miscellaneous deduction | 265 | 156 | 33 | 22 | 11 | 17 | 8 | 3 | 8 | 7 | |
| Deduction Equivalent of: | 80 | 45 | 14 | 8 | | 1 | | 2 | 10 | | |
| Foreign tax credit | 35 | 14 | 3 | 5 | | 1 | | 2 | 10 | | |
| Investment credit | 54 | 42 | 9 | 3 | | | | | | | |
| All other preference credits. | 5 | 5 | | | | | | | | | |
| Memo: Investment Interest: 2/ | | | | | | | | | | | |
| Not in excess of investment income | 233 | 66 | 38 | 26 | 30 | 13 | 16 | 17 | 67 | 10 | |
| In excess of investment income | 116 | 25 | 9 | 9 | 19 | 11 | 11 | 6 | 18 | 8 | |

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Source: 1975 Internal Revenue Service tax model.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income plus preferences.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 25

Itemized Deductions and Credits as Percentages of Adjusted Gross Income less Investment Interest for
Nontaxable Returns with Adjusted Gross Income less Investment Interest of \$200,000 or Over - 1976

| Deduction or Credit | Number of Returns with Deduction or Credit | | | | | | | | | |
|---|--|-----|-----|-----|-----|-----|-----|-----|------|----------|
| | : Total : Deduction or Credit as Percentage of AGI less Investment Interest | | | | | | | | | |
| | : of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | | | | | | | | | |
| | : Number: Under : under : under : under : under : under : under : under : or | | | | | | | | | |
| | :Returns: | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 100% | :more 1/ |
| All Returns | 126 | | | | | | | | | |
| Itemized deductions, total..... | 122 | 4 | 3 | 1 | | 1 | | 4 | 31 | 78 |
| Medical deduction..... | 59 | 53 | 5 | | 1 | | | | | |
| Taxes paid deduction | 119 | 65 | 25 | 11 | 7 | 2 | 2 | 2 | 3 | 2 |
| Contributions deduction | 114 | 58 | 5 | 9 | 11 | 10 | 17 | 2 | 2 | |
| Interest deduction | 78 | 29 | 3 | 2 | 2 | 2 | 6 | 2 | 17 | 15 |
| Casualty loss deduction | 13 | 6 | 1 | | | | | | 1 | 5 |
| Miscellaneous deduction | 108 | 43 | 15 | 11 | 8 | 6 | 7 | 5 | 6 | 7 |
| Deduction Equivalent of: | 39 | 11 | 8 | 4 | 3 | | 1 | 1 | 11 | |
| Foreign tax credit | 24 | 5 | 2 | 1 | 3 | | 1 | 1 | 11 | |
| Investment credit | 19 | 11 | 6 | 2 | | | | | | |
| All other preference credits. | 2 | 2 | | | | | | | | |
| Memo: Investment interest in excess of investment income <u>2/</u> | 55 | 10 | 2 | | 2 | 2 | 5 | 3 | 16 | 15 |

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Office of Tax Analysis

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Source: 1976 Statistics of Income.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income less investment interest.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

returns which filed as nontaxables actually had large enough itemized deductions to be subject to the minimum tax and, therefore, were taxable. Usually, such returns would fall into the nearly nontaxable category. Because of these data problems, some of the analysis in this chapter is repeated in Chapter 6 for the truly nontaxables, but the corrected data is only available for high AGI returns. The data analyzed in this chapter are all that is available for the three other income measures. Despite these problems, analyzing the available data should shed some light on which tax provisions are used most commonly to make returns nontaxable or nearly nontaxable.

As in prior years, the interest paid deduction was the largest deduction item most frequently for high AGI returns (see Table 17). However, the importance of interest as the largest deduction or credit drops by more than half and falls to only the third most important item when high expanded income returns are used (Table 16). More importantly, on only 10 of the 89 high expanded income nontaxable returns was there any investment interest in excess of investment income (Table 18). Interest expense (including mortgage interest) was almost 17.6 percent of expanded income for nontaxables, 9.6 percent for nearly nontaxables, but only 2.9 percent for all other taxables. Excess investment was 6.5 percent for nontaxables, 1.6 percent for nearly nontaxables, and only 0.3 percent for all other taxables (see Table 76-2 in Appendix A). Clearly, investment interest, both non-excess and excess, was a less important item for the all other taxables than for the other groups. However, under the expanded income concept, non-excess investment interest is recognized as a legitimate investment expense, and in only six cases was excess investment interest large enough to play a major role in making a return nontaxable (Table 16).

The largest item method shows the casualty loss deduction to be the most frequent reason for making a high expanded income return nontaxable in 1976; it was among the least important items for taxable returns (Table 16). The importance of casualty losses is confirmed by both other methods, and it likely that it played a major role in the nontaxability of one quarter of all nontaxable high expanded income returns (Table 18). This item is vastly more important for nontaxables than for taxable returns. Although the absolute number of casualty loss deductions did not change appreciably between 1975 and 1976, the relative importance of the casualty losses grew dramatically because the casualty loss deduction became one of only two itemized

deductions not included among the excess itemized deductions subject to the minimum tax (Tables 18 and 22). The casualty deduction was the largest single item 14 times (out of 89) in 1976 (Table 16) and 13 times (out of 215) in 1975 (Table 17).

The deduction for charitable contributions was cited second most frequently as the largest item causing nontaxability. Contributions were the largest item on 21.3 percent of nontaxable expanded income returns, about as frequently (23.8 percent) as on taxable returns (Table 16). Also, on over two-thirds (43 out of 64) of the returns which had any contribution deduction, that deduction was less than 10 percent of expanded income (Table 18). On the other hand, there are 17 returns on which this deduction exceeds 70 percent of expanded income, and 15 returns on which it exceeds 100 percent of expanded income (Table 18). This is approximately the same as the 19 cases in which it is the largest deduction (Table 16). In the aggregate, the deductions for charitable contributions on nontaxable high expanded income returns are extremely large (Table 76-2). In fact, it is one and one half times AGI, which far exceeds the statutory limit of deductibility. It is likely that the data are being distorted by a few extremely large deductions which have not been reduced to their legal limits because the returns would have been nontaxable anyway. In the aggregate, the contributions of the nearly nontaxables do not appear as impossibly large as for the nontaxables. Nevertheless, the charitable deduction is a three times larger share of expanded income for nearly nontaxables than for other taxables (Table 76-2). Thus, although the contributions deduction may have been a major factor in the nontaxability of more than one-fifth of the nontaxable returns, for most nontaxable returns, contributions are no more important than for taxable returns.

As measured by the largest single item method, the only two other items of significance are the miscellaneous deduction and the foreign tax credit (Table 16). Both are much more important for nontaxables than for taxables. For high-income returns, the miscellaneous deduction consists mainly of investment expenses other than interest, employee expenses, and alimony paid, all of which could arguably be "above-the-line" deductions which should be taken in computing income. ^{2/} As Table 76-2 shows, this deduction is far more important for nontaxables (22.8 percent of expanded

^{2/} Beginning in 1977, alimony payments have been converted from a miscellaneous deduction for itemizers to a deduction in the calculation of AGI.

income) than for nearly nontaxables (10.0 percent of expanded income) or for all other taxes (1.7 percent of expanded income). On 11 percent of the high expanded income returns, the miscellaneous exceeded 70 percent of expanded income, (Table 18).

When the foreign tax credit appears on a nontaxable return, it is usually large enough to account for nontaxability entirely by itself, even if other deductions and credits are relatively small. The nontaxability of about one out of six of the expanded income nontaxables can be attributed to the foreign tax credit (Table 18). As measured by aggregate data (Table 76-2), this credit is moderately important for both nontaxables (equivalent to a deduction of 9.5 percent of expanded income) and for nearly nontaxables (11.0 percent), but it is of almost no significance for all other taxables (0.2 percent). The foreign tax credit is the only credit of any importance for the nontaxables. In fact, only three nontaxables have any investment credit, and it is never large (Table 18). The investment credit is not the largest item on any nontaxable return even though it is the largest item for 6.4 percent of taxable high expanded income returns (Table 16). Its value relative to total expanded income of nontaxables is almost imperceptible (Table 76-2).

The deduction for state and local taxes is most noticeable for its lack of importance in causing nontaxability. In the aggregate, taxes as a percentage of expanded income are about the same level for all three categories of returns (Table 76-2). Taxes are the largest deduction category on only 2.2 percent of nontaxable returns but are the largest item on over half, (55.2 percent) of all taxable high expanded income taxable (Table 16). Though deductions for taxes appeared on most nontaxable expanded income returns, the deduction was less than 10 percent of expanded income two-thirds of the time, only exceeded 20 percent of expanded income 6 percent of the time, and only exceeded 70 percent of expanded income in one percent of the cases (Table 18).

For the nontaxables, preferences comprised 53.6 percent of expanded income, about 93 percent of which was due to the excluded portion of long-term capital gains. For the nearly nontaxables, preferences were substantially smaller (38.7 percent of expanded income) with about 79 percent of them from excluded capital gains. For all other taxable returns, preferences were 23.8 percent of expanded income, with about 74 percent of them for excluded capital gains (Table 76-2).

The tax savings from the alternative tax, from the maximum tax on earned income, and from income averaging are not significant for either nontaxables or nearly nontaxables. Taken together, they are much less important for these groups than for the remainder of taxable returns (Table 76-2).

Nontaxables are not affected by the minimum tax. For nearly nontaxables, the minimum tax is equivalent to losing a deduction of 10.0 percent of expanded income, but it does represent 79 percent of that group's tax bill. Thus, eliminating the minimum tax would reduce the tax liabilities to an insignificant level of 1.5 percent of expanded income. For all the other taxable returns, the minimum tax represents a loss of deductions of 3.7 percent of expanded income, but it represents less than 7 percent of the group's total tax bill (Table 76-2).

In terms of aggregates for the entire group of fully and nearly nontaxables, the significance of itemized deductions in reducing taxes appears to diminish. Of course, the aggregates do tend to show averages and thereby hide some of the differences that make individual returns unique. Nonetheless, this methodology indicates that the omission of tax preference income from the tax base is the most important means by which taxes are reduced or eliminated (Table 76-2).

Findings

This chapter has provided the data and the methods for analyzing the relative importance of various items in reducing taxes or in making a return nontaxable. Three different methods have been employed: the largest single deduction or credit; deductions and credits on a particular return as percentages of income shown on that return; and data showing the average shares of preferences, deductions, and credits for all returns in a particular class. The data indicate that nontaxability often is due to a combination of causes. Even in those cases where a very large single item does appear, no one particular item is of overwhelming importance. In terms of expanded income, several items play major rolls in nontaxability: preference income, predominantly capital gains; itemized deductions for interest, for miscellaneous expenses, for charitable contributions, and for casualty losses; and the foreign tax credit.

In order to verify the indications that many high-income individuals who reported that they had no tax liabilities were actually subject to the minimum tax, an individual inspection of the 63 supposedly nontaxable high AGI returns was undertaken. As a result of this case by case analysis, it was determined that there were only 22 high AGI nontaxables in 1976. An analysis of these 22 returns including the reasons for their nontaxability is contained in Chapter 6.

Chapter 6

22 High Adjusted Gross Income Nontaxable Returns in 1976

Fewer Nontaxable Returns

All of the data presented so far in this report have been derived from the Internal Revenue Service Statistics of Income (SOI) for individual income tax returns. For each year, the SOI consists of a weighted sample of all individual tax returns which have been filed. Except for certain corrections of obvious arithmetic errors, the SOI data are exactly as reported by taxpayers on their tax returns. Not only are the data before audit by the IRS, but also the data do not reflect errors in tax computations, etc. which are apparent from the income, deduction, and credit items shown by the taxpayers on their returns -- even if the tax shown is inconsistent with other items on the return.

For purposes of classifying tax returns for this report, the most important problem in using tax as reported on the return has been the failure of taxpayers to calculate properly the minimum tax on items of tax preference. In the first year or two after the introduction of the minimum tax in 1970, a substantial proportion of high income, supposedly nontaxable tax returns contained this error and were actually taxable. By 1973, the error rate had fallen to about 5 percent; and, in 1975, this error had virtually disappeared. However, this error has reoccurred on 1976 tax returns to such an extent that the 1976 SOI data vastly overstate the frequency of high-income, nontaxable returns. An examination of all 68 of the supposedly nontaxable high AGI returns showed that there are actually only 22 nontaxable returns with AGI of \$200,000 or over.

After all of the 1976 tabulations shown elsewhere in this report were completed, it became apparent that there were internal inconsistencies in the tabulations that could only be a result of taxpayers' errors in the computation of the minimum tax on items of tax preference, particularly the new preference for excess itemized deductions. Under the Tax

Reform Act of 1976, itemized deductions (other than casualty losses or medical expenses) to the extent that they exceed 60 percent of AGI were made a tax preference item for minimum tax purposes.^{1/} Beginning in 1976, the exclusion from the minimum tax is the larger of \$10,000 (\$5,000 on the return of a married person filing separately) or one-half of ordinary tax liabilities. For returns with no regular tax liability, a minimum tax would be due on any return where a particular itemized deduction or the sum of all itemized deductions (other than casualty and medical deductions) exceeded 60 percent of AGI by at least \$10,000 (or \$5,000 on the separate return of a married person). An examination of Table 19 shows that 54 and of the 68 supposedly nontaxable returns with AGI of \$200,000 and over have total itemized deductions exceeding 60 percent of AGI and 53 have total deductions exceeding 70 percent of AGI. Even after excluding the returns with large casualty losses or large medical expenses, the table shows that 46 of the high-income returns as defined by AGI are likely to be subject to the minimum tax simply from their excess itemized deductions.^{2/} Thus, instead of 68 high-income, nontaxable returns, Table 19 suggests that there are only about 22.

Examination of the 68 supposedly nontaxable high AGI returns for 1976 (which had already been assembled), verified the conclusions drawn from the data in Table 19. Based solely on the excess itemized deduction tax preference item, 45 of the returns were actually subject to the minimum tax.^{3/}

^{1/} Under the "no tax benefit rule," if itemized deductions exceed 100 percent of AGI, only the amount between 60 and 100 percent of AGI is a preference item. Otherwise, itemized deductions that did not reduce tax liabilities would produce an increase in the minimum tax.

^{2/} The exact number of returns subject to the minimum tax cannot be determined exactly from Table 19 because it cannot be determined which of the returns have the large casualty and medical deductions; hence, the table does not show the exact distribution of total itemized deductions excluding medical and casualty expenses.

^{3/} During this examination it was found that one return should not have been included in the high AGI group; it was included only because of the incorrect placement on the return of certain income and deduction items.

Thus, there are only 22 high AGI nontaxables for 1976. Only five one-hundredths of one percent of all high AGI tax returns filed in 1976 were nontaxable. These 22 nontaxable returns represent a reduction of over 90 percent in the number of nontaxable high income returns as compared to 1974 and 1975. With only 22 nontaxable returns, all of which were examined, it is possible to describe these returns, their characteristics, and the reasons for their nontaxability in more detail and with greater certainty than was possible for the far larger groups of nontaxable returns in prior years. The characteristics of these 22 returns are described in the second section of this chapter.

Since AGI plus preferences is always larger than AGI, any return with itemized deductions (other than medical expenses or casualty losses) in excess of 60 percent of AGI plus preferences will be subject to the minimum tax, and, therefore, will be taxable. Using this methodology for returns with at least \$200,000 of AGI plus preferences, it appears as if at least 63 of the 114 returns, or 55 percent, which did not report any tax liabilities are actually taxable (See Table 20). This method of determining tax status is not quite as reliable for returns selected by expanded income or by AGI less investment interest. However, because of the substantial overlap of the same tax returns within all four groups, the results of a similar calculation for these two other groups cannot be too far off. Table 18 indicates that 36, or 40 percent, of the 89 returns with expanded income of \$200,000 or over are taxable. Similarly, 21, or 50 percent, of the 42 returns with high AGI less investment interest are taxable (Table 21).

Unfortunately, it was not possible to verify fully these indications about the substantially reduced numbers of nontaxable returns as selected by expanded income, AGI plus preferences, and AGI less investment interest. The actual tax returns for the high income nontaxables under these three income definitions were not readily available. Since obtaining either the actual returns or additional tabulations from the 1976 SOI file would have delayed completion of this report inordinately, corrected tabulations and detailed analysis based on them will be included in the next high income report.

For purposes of this report, it will be assumed that the indications from Tables 18 through 22 are accurate and that in 1976 there are:

- 53 high-income nontaxables as defined by expanded income;
- 22 high-income nontaxables as defined by AGI;
- 41 high-income nontaxables as defined by AGI plus preferences; and
- 21 high-income nontaxables as defined by AGI less investment interest.

While the additional analyses of the 1976 high-AGI nontaxables do show a significant change from the SOI data, they do not eliminate the usefulness of SOI data, especially for the nearly nontaxable and all other taxable categories. Applying the minimum tax to these returns only shifts the returns from the nontaxables to the nearly nontaxables. Since these two groups generally exhibit similar characteristics, the shift of returns will not significantly affect the conclusions about these returns that can be drawn from the SOI data. The only significant change is a decrease in the number of nontaxables and an equivalent increase in the number of nearly nontaxables.

The 22 High-AGI Nontaxables in 1976

The examination of the 22 high-AGI nontaxable returns for 1976 indicated that all except two were nontaxable for one of two reasons: a foreign tax credit or a casualty loss deduction. Fourteen of the returns were clearly nontaxable because of foreign tax credits; six returns were nontaxable because of casualty loss deductions; nontaxability on the last two returns was due to a combination of factors.

As the upper portion of Table 26 indicates, on every one of the 14 returns which were nontaxable due to the foreign tax credit, the foreign tax credit was equivalent to a deduction of at least 70 percent of AGI. On four of these returns, either the standard deduction was used, or the taxpayers did not bother to take either the standard deduction or to itemize their deductions. On the ten returns

Table 26

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for the 22 Nontaxable Returns
with Adjusted Gross Income of \$200,000 or Over in 1976

| | | Number of Returns with Deduction or Credit | | | | | | | | | |
|--|--|--|---|--|---|--|---|--|---|--|----|
| | | Total | | Deduction or Credit as Percentage of Adjusted Gross Income | | | | | | | |
| | | Number | : | 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% | : | Under : under : under : under : under : under : or | : | 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/ | : | | |
| | | Returns | : | 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/ | : | Under : under : under : under : under : under : or | : | 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/ | : | | |
| -----Returns Nontaxable due to the Foreign Tax Credit----- | | | | | | | | | | | |
| Number of Returns | | 14 | | | | | | | | | |
| Itemized deductions, total..... | | 10 | | | | | | | | | |
| Medical deduction | | 4 | | | | | | | | | |
| Taxes paid deduction | | 9 | | | | | | | | | |
| Interest deduction | | 6 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | | | | | | | | | | |
| Miscellaneous deduction | | 7 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 14 | | | | | | | | | 14 |
| Investment credit | | | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |
| Itemized deductions, total | | 8 | | | | | | | | | |
| Medical deduction | | 3 | | | | | | | | | |
| Taxes paid deduction | | 8 | | | | | | | | | |
| Interest deduction | | 8 | | | | | | | | | |
| Contributions deduction | | 8 | | | | | | | | | |
| Casualty loss deduction | | 6 | | | | | | | | | |
| Miscellaneous deduction | | 6 | | | | | | | | | |
| Deduction Equivalent of: | | | | | | | | | | | |
| Foreign tax credit | | 1 | | | | | | | | | |
| Investment credit | | 1 | | | | | | | | | |
| -----Returns Nontaxable due All Other Causes----- | | | | | | | | | | | |
| Number of Returns | | 8 | | | | | | | | | |

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1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

that had itemized deductions, seven of the returns had deductions of less than 10 percent of AGI, and the remaining three had itemized deductions of between 10 and 30 percent of AGI. On no return were itemized deductions greater than 30 percent of AGI. Table 27 shows the relationship between the largest and the second largest items of deduction or credit on each of these returns. It indicates that on returns that were nontaxable because of the foreign tax credit there was no uniformly important second largest item of deduction or credit. On five of the returns, taxes were the next largest item; on three of the returns, the interest deduction was the next largest deduction; and on two returns various miscellaneous deductions were the next largest item. On four returns, there was no other credit or deduction item (except for the standard deduction). Moreover, in only two cases was the second largest deduction item greater than 10 percent of AGI.

Six of the eight remaining returns were nontaxable because of large casualty losses. These losses were about evenly divided between losses to income-producing property and casualty losses to non-income-producing property such as a personal residence. As indicated on the lower portion of Table 26, these casualty losses were very large. All six of them exceeded 60 percent of AGI; two of them were between 70 and 100 percent of AGI; and three exceeded the entire amount of AGI. The fraction of other itemized deductions on these returns was not nearly so uniform as on the returns that were nontaxable because of the foreign tax credit; however, itemized deductions were never very large. In no case did itemized deductions other than the reported casualty loss exceed 50 percent of AGI. As indicated on Table 27, there was no uniformly second most important deduction or credit item on these six returns. In one case it was interest; in another, taxes; in two cases, charitable contributions; and in two cases, the miscellaneous deduction. It is interesting to note that none of these six returns used the foreign tax credit or the investment credit.

The returns that had large casualty losses are likely to be nontaxable in two or more successive years because they have large carryover losses. However, because of peculiarities of the loss carryover computation and its placement on the tax return, these returns are not likely to appear as high-income nontaxable returns in the carryover years. The carryover of a casualty loss becomes part of a net operating loss. It reduces AGI; it is not a deduction from AGI, as is true for the year in which the casualty

actually occurred. Because the large casualty loss carryover losses reduce AGI, these returns are not likely to have AGI of \$200,000 or over in the carryover years, and, therefore, they are not likely to be classified as high-income returns in those years.

The two remaining returns were nontaxable for combinations of reasons. One of the returns was nontaxable because of very large medical and interest deductions. This was the only return of the 22 in which the interest-paid deduction exceeded 30 percent of AGI. Even on this return, the interest deduction was only between 50 and 60 percent of AGI. On the last return, itemized deductions just slightly exceeded 60 percent of AGI; however, they did not exceed 60 percent by the \$10,000 necessary to produce minimum tax liability. While itemized deductions reduced AGI by slightly more than 60 percent, the remainder was eliminated by a substantial investment credit and a rather insignificant foreign tax credit. It may be of some interest to note that of the 22 nontaxable returns, this is the only one which used the investment credit at all. 4/

Table 28 summarizes the sources of income, the deductions, and the credits for the 22 nontaxable returns. The data are presented separately for the 14 returns made nontaxable by the foreign tax credit, for those made not taxable for any other reason, and for all 22 returns together. These returns were noticeably different from nontaxables in the recent past. Aside from the one or two items which made them nontaxable, these returns did not appear unusual. Their income sources were typical of high-income taxpayers, they did not appear to be attempting to shelter income from taxes, and their itemized deductions were not unusually large.

Table 29 summarizes some characteristics of these 22 nontaxable returns. Again, the data are separated by the source of nontaxability: either the foreign tax credit or all other reasons. Only one of the 22 returns had AGI of over \$1 million. None of the 8 returns whose nontaxability

4/ Some of the 14 returns which were made nontaxable by large foreign tax credits did have investment credits available. However, because the foreign tax credits completely wiped out tax liability, the investment credits were not used; they were carried forward to future tax years or back to prior years.

Table 28

Income, Deductions, and Credits for the 22 Nontaxable Returns with Adjusted Gross Income \$200,000 or Over in 1976

| | Returns Nontaxable Due to Foreign Tax Credit | | | Other Nontaxable Returns | | | All Nontaxable Returns | | |
|----------------------------|--|-------------------|-----------|--------------------------|-------------------|-----------|------------------------|-------------------|-----------|
| | Number of: | | | Number of: | | | Number of: | | |
| | Returns: | | | Returns: | | | Returns: | | |
| | Amount | Percentage of AGI | With Item | Amount | Percentage of AGI | With Item | Amount | Percentage of AGI | With Item |
| Wages and salaries | 11 | \$2,126,484 | 40.6 % | 5 | \$ 779,046 | 34.6 % | 16 | \$2,905,530 | 38.8 % |
| Sole Proprietorship Income | 5 | 804,163 | 15.4 | 2 | 166,077 | 7.4 | 7 | 970,240 | 13.0 |
| Dividends 1/ | 5 | 1,823,485 | 34.8 | 8 | 1,015,037 | 45.1 | 13 | 2,838,522 | 37.9 |
| Interest | 12 | 141,782 | 2.7 | 8 | 228,763 | 10.2 | 20 | 370,545 | 5.0 |
| Capital gains 2/ | 5 | 2,426 | 0.1 | 4 | 152,888 | 6.8 | 9 | 155,314 | 2.1 |
| Pensions | 1 | 809 | • | | | | 1 | 809 | • |
| Rents and royalties | 3 | (15,890) | (0.3) | 5 | 14,535 | 0.7 | 8 | (1,355) | (•) |
| Partnership income 3/ | 5 | 450,573 | 8.6 | 6 | (112,854) | (5.0) | 11 | 337,719 | 4.5 |
| Farm income | 2 | (86,062) | (1.6) | 1 | (5,418) | (0.2) | 3 | (91,480) | (1.2) |
| State income tax refunds | 2 | 8,389 | 0.2 | 3 | 16,394 | 0.7 | 5 | 24,783 | 0.3 |
| Other income | 4 | 109 | • | 1 | (123) | • | 5 | (14) | • |
| Total | | 5,260,368 | 100.5 | | 2,254,345 | 100.2 | | 7,514,713 | 100.4 |
| Adjustments to income 4 | 4 | 26,193 | 0.5 | 1 | 3,527 | 0.2 | 5 | 29,720 | 0.4 |
| Adjusted Gross Income | | 5,234,177 | 100 % | | 2,250,818 | 100 % | | 7,484,995 | 100 % |
| Standard deduction | 4 | 10,400 | 0.2 | | | | 4 | 10,400 | 0.1 |
| Medical expense deduction | 5 | 739 | • | 3 | 110,903 | 4.9 | 8 | 111,642 | 1.5 |
| Taxes paid deduction | 10 | 62,786 | 1.2 | 8 | 131,565 | 5.8 | 18 | 194,351 | 2.6 |
| Interest paid deduction | 6 | 81,673 | 1.6 | 8 | 341,745 | 15.2 | 14 | 423,418 | 5.7 |
| Contributions deduction | 8 | 17,358 | 0.3 | 8 | 211,898 | 9.4 | 16 | 229,246 | 3.1 |
| Casualty deduction | | | | 6 | 3,690,504 | 164.0 | 6 | 3,690,504 | 49.3 |
| Miscellaneous deduction | 7 | 54,700 | 1.1 | 6 | 169,949 | 7.6 | 13 | 224,649 | 3.0 |
| Total deductions | | 217,256 | 4.2 | | 4,656,556 | 206.9 | | 4,073,012 | 65.1 |
| Taxable Income | | 4,976,321 | 95.1 | | 87,087 | 3.9 | | 5,063,408 | 67.6 |
| Foreign tax credit | 14 | 2,962,593 | 56.6 | 1 | 262 | • | 15 | 2,962,855 | 39.6 |
| Investment credit | | | | 1 | 18,785 | 0.8 | 1 | 18,785 | 0.3 |
| Deduction equivalent of: | | | | | | | | | |
| Foreign tax credit | 14 | 4,742,934 | 90.6 | 1 | 495 | • | 1 | 4,743,429 | 63.4 |
| Investment credit | | | | 1 | 53,368 | 2.4 | 1 | 53,368 | 0.7 |
| Number of Returns | 14 | | | 8 | | | 22 | | |

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Source: 1976 income tax returns

• Less than 0.05 percent.

1/ Net of \$100 dividend exclusion.

2/ Net of the deduction of one-half of the excess of net long-term gains over short-term losses.

3/ Includes income from small business corporations and from estates and trusts.

4/ Predominantly, moving expenses.

Table 29

Characteristics of the 22 Nontaxable Returns with
Adjusted Gross Income of \$200,000 or Over in 1976

| | | | | |
|---|-----------|-------------------------------|-----------|------------|
| | : | <u>Nontaxable Due to</u> | : | All |
| | : | <u>Foreign Tax: All Other</u> | : | Returns |
| | : | Credit | : | Reasons |
| | : | | : | Nontaxable |
| <hr/> | | | | |
| <u>Adjusted Gross Income</u> | | | | |
| \$ 200,000 - \$ 500,000 | 11 | 8 | 19 | |
| \$ 500,000 - \$1,000,000 | 2 | 0 | 2 | |
| \$1,000,000 and over | <u>1</u> | <u>0</u> | <u>1</u> | |
| ALL | <u>14</u> | <u>8</u> | <u>22</u> | |
| <u>Age</u> | | | | |
| Under 65 | 13 | 7 | 20 | |
| 65 or over <u>1</u> / | <u>1</u> | <u>1</u> | <u>2</u> | |
| ALL | <u>14</u> | <u>8</u> | <u>22</u> | |
| <u>Tax Filing Status</u> | | | | |
| Single | 1 | 0 | 1 | |
| Married, Filing Joint Return <u>2</u> / | 8 | 7 | 15 | |
| Married, Filing Separate Return | 2 | 1 | 3 | |
| Unmarried, Head of Household | <u>3</u> | <u>0</u> | <u>3</u> | |
| ALL | <u>14</u> | <u>8</u> | <u>22</u> | |

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- 1/ Indicates that on a joint return at least one of the taxpayers claims the extra exemption for age.
- 2/ Includes qualifying widow or widower with at least one dependent child.

was not attributable to the foreign tax credit had AGI in excess of \$500,000. The distribution of the returns by filing status was somewhat unusual. Of the 22 returns only one filed as a single taxpayer, but 3 filed as heads of households, and 3 filed as married persons filing separately. Fourteen of the returns, or 64 percent, were joint returns of married couples. The age distribution on the returns was also noteworthy. On only 2 of the 22 returns were extra exemptions claimed because the tax filers were over 65 years of age.

Foreign Taxes and the Foreign Tax Credit

Because each of these returns was examined individually, it was possible to determine the nature of the foreign taxes for each return. Twelve of the fourteen taxpayers whose liabilities were eliminated by the foreign tax credit paid foreign taxes of more than 50 percent of their AGI. In the thirteenth case, the foreign tax was almost 40 percent of AGI. In the last case, the foreign tax paid during 1976 was just over 10 percent of AGI but because of a large foreign tax credit carryover the allowable foreign tax credit exceeded 40 percent of AGI. By comparison, in 1976, only 24.6 percent of all persons with AGI of \$200,000 or over paid an effective tax rate of 50 percent or more (see Table 5).

One reason why the foreign tax credit has been considered a tax preference by many tax reformers is that foreign taxes, especially those associated with oil and gas exploration, may actually be royalty payments to foreign governments disguised as taxes. For the fourteen high-income nontaxables who were made nontaxable by use of the foreign tax credit, there is only one instance where the foreign taxes may have been disguised royalties to a foreign government. On the thirteen other returns, the foreign taxes represent legitimate tax payments to foreign governments based on income generated in foreign countries. In several of these cases, the tax filers were residents of foreign countries and either worked abroad, owned and operated businesses abroad, or had substantial income-producing properties abroad. To the extent that foreign accounting methods coincide with U.S. practices and do not "hide" income, these taxpayers, though not paying any U.S. tax, have actually paid very substantial income taxes on their worldwide income. It is not at all clear that these persons should be considered high-income nontaxables.

Conclusion

While one can deduce the reasons by which a high-income tax return can become nontaxable under present law, such theoretical analyses are not as nearly as persuasive to many people as is the evidence from actual tax returns. The actual evidence from 1976 returns indicates that the problems of high-AGI, completely nontaxable returns has been virtually eliminated. The 22 nontaxable returns represent only five one-hundredths of one percent of all high-income returns. Moreover almost two-thirds of these returns, the ones nontaxable in the United States because of large foreign tax credits, are not really nontaxable.

Thus, in 1976 there were only eight high-AGI individuals who paid no income tax. Six of these are nontaxable because of casualty losses. One return was nontaxable in large part because of extraordinarily large medical expenses. The final nontaxable return used a combination of provisions in the tax law each of which was provided for a seemingly good and equitable reason. None of the provisions were used extensively. It would be of particular interest to know whether this same taxpayer will be able to perform this feat frequently or perennially.

Chapter 7

Tax Policy Considerations

The most important conclusions reached in this year's high-income report are outlined in Chapter 2, Highlights. This chapter discusses some possible tax policy implications which may be drawn from the conclusions.

Nontaxables

Now that the number of high-income nontaxables has been reduced to a virtual handful, is it worth devoting further legislative attention to completely eliminating such tax returns? The answer to that question depends (1) on whether our data indicating virtual elimination are, indeed, correct and (2) upon the ease or difficulty in further reducing the number of high-income nontaxables.

As discussed in Chapter 3, even the broader expanded income measure used in this report is not as comprehensive as economic income because expanded income omits all sources of income which cannot be identified from tax returns. Tax returns simply do not provide information about several sources of income which are of importance to high-income taxpayers such as tax-exempt state and local bond interest and the income sheltered by straight-line depreciation of real estate in excess of economic depreciation. In order to get a better measure of tax rates of high-income individuals and the true number of high-income nontaxables, more data on the amounts of, and distributions of, these income sources are needed.

It would be relatively simple to reduce further the number of nontaxables as measured by expanded income. Complete elimination could be accomplished by including casualty losses and medical expenses in the excess itemized deduction preference subject to the minimum tax and by setting some limit on the share or amount of United States income taxes which could be offset by the credit for foreign tax payments. Both of these changes raise serious question of equity. Is it appropriate to disallow foreign taxes as a

credit against U.S. taxes? Should people whose extraordinary and unavoidable expenses have effectively reduced their taxable incomes to zero be made subject to tax?

Nearly Nontaxables

The minimum tax has been extremely important in substantially reducing the number of high-income nontaxables. However, its effect has been to create an equivalent number of nearly nontaxables. In this manner, the minimum tax obscures the numbers of, and the problems of, individuals with very large incomes who do not pay their "fair share" of tax liabilities. For those who worry about high-income individuals bearing an appropriate share of the tax burden, the focus of attention now must move from the nontaxables, who have almost disappeared, to the nearly nontaxables whose numbers are still substantial.

When the attention of the Treasury Department and the Congress first focused on high-income nontaxables late in the 1960's, there were fewer than 300 nontaxables with adjusted gross income of \$200,000 or over. In 1976, even with the virtual elimination of high-income nontaxables, there are approximately 500 nontaxables and nearly nontaxables with income, however defined, of \$200,000 or over. These 500 people did not carry a fair share of the tax burden. The effective tax rates paid in 1976 by the high-income nontaxables and nearly nontaxables together was 6.3 percent. For the similar high AGI group, the effective tax rate was only 5.2 percent. In the same year, 1976, Statistics of Income data show that the effective tax rate for taxpayers with AGI between \$6,000 and \$8,000 was 6.2 percent. Between \$8,000 and \$10,000 of AGI, the effective rate was 8.2 percent. In 1976, a four-person family only had to have had an AGI of \$11,500 or more (which was below median family income) to have had an effective tax rate of 8.2 percent. Thus, the nearly nontaxables had lower effective tax rates than typical, middle-income and lower middle-income taxpayers. Again, this suggests that attention must be focused on the high-income nearly nontaxables, who have so far escaped serious scrutiny.

Foreign tax credits

Should individuals who are nontaxable because of the foreign tax credit and who actually paid substantial foreign taxes be considered nontaxable for purposes of these

analyses? If the U.S. tax return of a U.S. resident or citizen must include worldwide income of that individual, it seems only proper to give that person credit for his worldwide income tax payments, whether made to the U.S. or to a foreign government. Eliminating such returns from the analyses would considerably reduce the remaining number of high-income nontaxables. It would also focus attention more sharply on those remaining high-income nontaxables who do not pay any income tax.

Perennial Tax Avoiders

A final item of significance concerns the level of taxes for the nontaxables and nearly nontaxables over periods of several years. Are these people taxable or nearly nontaxable for a single year that is preceeded and followed by years in which they pay substantial taxes, or are the same people nontaxable and nearly nontaxable, year in and year out? The existence of perennial nontaxables or nearly nontaxables would be much more indicative of a fundamental problem in the tax system than would the existence of a few high-income individuals who pay little or no tax in one year because of unusual circumstances but who pay substantial taxes in most other years. This is a fruitful subject for future analysis. The Treasury Department will begin a project to examine the returns of high-income nontaxables and nearly nontaxables for a period of several years.

Appendix A

1976 Data

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Table 76-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1976Aggregate Data
(\$ in thousands)

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|---|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | \$ 22,164,488 | \$ 31,188 | \$ 241,240 | \$ 21,892,060 |
| EXPANDED INCOME | 22,164,488 | 31,188 | 241,240 | 21,892,060 |
| AGI PLUS PREFERENCES | 22,674,237 | 34,529 | 259,279 | 22,380,429 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 16,844,148 | 14,720 | 148,199 | 16,681,229 |
| Investment Interest < Investment Income <u>1/</u> | 509,749 | 3,341 | 18,039 | 488,368 |
| Tax Preferences | 5,330,679 | 16,712 | 93,411 | 5,220,557 |
| Excluded Long-Term Capital Gains | 3,930,427 | 15,546 | 73,519 | 3,841,361 |
| Dividend Exclusion | 7,721 | 10 | 47 | 7,664 |
| Other Tax Preferences <u>2/</u> | 1,392,532 | 1,156 | 19,845 | 1,371,531 |
| ADJUSTED GROSS INCOME | 17,373,180 | 20,967 | 172,456 | 17,179,758 |
| Deficits | - 29,623 | -3,149 | - 6,588 | - 19,885 |
| AGI of Returns with AGI > 0 | 17,343,557 | 17,817 | 165,868 | 17,159,872 |
| Exemptions | 142,169 | 217 | 1,076 | 140,876 |
| Standard Deductions | 3,182 | 2 | 16 | 3,164 |
| Itemized Deductions | 3,718,477 | 51,739 | 110,560 | 3,556,178 |
| Charitable Contributions | 1,317,871 | 30,478 | 37,656 | 1,249,737 |
| Interest: Total | 657,830 | 5,488 | 23,093 | 629,249 |
| Home Mortgage | 92,967 | 369 | 1,683 | 90,915 |
| Invest. Interest < Invest. Income <u>3/</u> | 499,410 | 3,097 | 17,669 | 478,644 |
| Invest. Interest > Invest. Income <u>4/</u> | 65,453 | 2,022 | 3,741 | 59,690 |
| Medical | 43,887 | 163 | 1,914 | 41,811 |
| Casualty | 29,368 | 7,040 | 2,856 | 19,472 |
| Tax Expense | 1,272,625 | 1,458 | 20,786 | 1,250,382 |
| Miscellaneous Deductions | 396,896 | 7,113 | 24,255 | 365,528 |
| Excess of Exemptions & Deductions over AGI | 56,175 | 35,987 | 3,256 | 16,932 |
| Taxable Income | 13,565,528 | 4,995 | 64,060 | 13,496,472 |
| Tax at Normal Rates | 8,086,288 | 3,158 | 38,231 | 8,044,899 |
| Saving from Alternative Tax <u>5/</u> | 48,161 | 0 | 138 | 48,022 |
| Saving from Maximum Tax <u>5/</u> | 472,160 | 176 | 2,006 | 469,978 |
| Saving from Income Averaging | 145,030 | 10 | 1,621 | 143,399 |
| Tax Before Credits | 7,431,261 | 2,973 | 34,465 | 7,393,823 |
| Tax Credits | 201,963 | 2,974 | 30,849 | 168,140 |
| Foreign Tax Credit | 74,646 | 2,954 | 28,378 | 43,314 |
| Investment Credit | 126,693 | 20 | 2,456 | 124,217 |
| All Other Credits <u>6/</u> | 624 | 0 | 15 | 609 |
| Tax After Credits | 7,229,298 | 0 | 3,615 | 7,225,683 |
| Minimum Tax | 537,737 | 0 | 13,513 | 524,225 |
| Total Income Tax | 7,767,036 | 0 | 17,128 | 7,749,908 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 313,927 | 4,726 | 48,750 | 260,450 |
| Taxable Income which would yield: <u>8/</u> | 12,600,806 | 4,726 | 58,099 | 12,537,981 |
| Income Tax before Credits | 12,286,879 | 0 | 9,349 | 12,277,531 |
| Income Tax after Credits | 13,133,143 | 0 | 33,524 | 13,099,619 |
| Total Income Tax | | | | |
| Number of Tax Returns Represented in the tabulation | 53,587 | 89 | 393 | 53,105 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1976

As Percentages of Expanded Income

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI PLUS PREFERENCES | 102.3 | 110.7 | 107.5 | 102.2 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 76.0 | 47.2 | 61.4 | 76.2 |
| Investment Interest < Investment Income <u>1/</u> | 2.3 | 10.7 | 7.5 | 2.2 |
| Tax Preferences | 24.0 | 53.6 | 38.7 | 23.8 |
| Excluded Long-Term Capital Gains | 17.7 | 49.8 | 30.5 | 17.6 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 6.3 | 3.7 | 8.2 | 6.3 |
| ADJUSTED GROSS INCOME | 78.4 | 67.2 | 71.5 | 78.5 |
| Deficits | - 0.1 | -10.1 | - 2.7 | - 0.1 |
| AGI of Returns with AGI > 0 | 72.3 | 57.1 | 68.8 | 78.4 |
| Exemptions | 0.6 | 0.7 | 0.4 | 0.6 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 16.8 | 165.9 | 45.8 | 16.2 |
| Charitable Contributions | 6.0 | 97.7 | 15.6 | 5.7 |
| Interest: Total | 3.0 | 17.6 | 9.6 | 2.9 |
| Home Mortgage | 0.4 | 1.2 | 0.7 | 0.4 |
| Invest. Interest < Invest. Income <u>3/</u> | 2.2 | 9.9 | 7.3 | 2.2 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.3 | 6.5 | 1.6 | 0.3 |
| Medical | 0.2 | 0.5 | 0.8 | 0.2 |
| Casualty | 0.1 | 22.6 | 1.2 | 0.1 |
| Tax Expense | 5.7 | 4.7 | 8.6 | 5.7 |
| Miscellaneous Deductions | 1.8 | 22.8 | 10.0 | 1.7 |
| Excess of Exemptions & Deductions over AGI | 0.2 | 115.4 | 1.4 | 0.1 |
| Taxable Income | 61.2 | 16.0 | 26.6 | 61.6 |
| Tax at Normal Rates | 36.5 | 10.1 | 15.8 | 36.8 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | 0.1 | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 2.1 | 0.6 | 0.8 | 2.2 |
| Saving from Income Averaging | 0.6 | * | 0.7 | 0.7 |
| Tax Before Credits | 33.5 | 9.5 | 14.3 | 33.8 |
| Tax Credits | 0.9 | 9.5 | 12.8 | 0.8 |
| Foreign Tax Credit | 0.3 | 9.5 | 11.8 | 0.2 |
| Investment Credit | 0.6 | 0.1 | 1.0 | 0.6 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 32.6 | 0 | 1.5 | 33.0 |
| Minimum Tax | 2.4 | 0 | 5.6 | 2.4 |
| Total Income Tax | 35.0 | 0 | 7.1 | 35.4 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.4 | 15.2 | 20.2 | 1.2 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 56.8 | 15.2 | 24.1 | 57.3 |
| Income Tax after Credits | 55.4 | 0 | 3.9 | 56.1 |
| Total Income Tax | 59.2 | 0 | 13.9 | 59.8 |
| Number of Tax Returns Represented in the tabulation | 53,587 | 89 | 393 | 53,105 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income

* Less than 0.05 percent.

Table 76-3

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

| | : | : | : | : |
|---|---------------|--------------|--------------|---------------|
| | : All | : Nontaxable | : Nearly | : All Other |
| | : Returns | : Returns | : Nontaxable | : Taxable |
| | : | : | : Returns | : Returns |
| INCOME, PER CONCEPT | \$ 15,731,871 | \$ 23,287 | \$ 217,952 | \$ 15,490,632 |
| EXPANDED INCOME | 18,903,111 | 16,508 | 162,213 | 18,724,390 |
| AGI PLUS PREFERENCES | 19,440,638 | 25,321 | 234,143 | 19,181,175 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 15,206,989 | 14,854 | 148,175 | 15,043,959 |
| Investment Interest < Investment Income <u>1/</u> | 524,882 | 8,433 | 69,777 | 446,673 |
| Tax Preferences | 3,708,767 | 2,034 | 16,191 | 3,690,543 |
| Excluded Long-Term Capital Gains | 2,784,160 | 1,964 | 11,047 | 2,771,150 |
| Dividend Exclusion | 6,134 | 8 | 56 | 6,070 |
| Other Tax Preferences <u>2/</u> | 918,473 | 63 | 5,088 | 913,323 |
| ADJUSTED GROSS INCOME | 15,731,871 | 23,287 | 217,952 | 15,490,632 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 15,731,871 | 23,287 | 217,952 | 15,490,632 |
| Exemptions | 111,354 | 179 | 1,115 | 110,060 |
| Standard Deductions | 1,410 | 0 | 3 | 1,407 |
| Itemized Deductions | 3,428,127 | 27,159 | 173,425 | 3,227,542 |
| Charitable Contributions | 1,205,943 | 1,689 | 44,584 | 1,159,670 |
| Interest: Total | 671,146 | 13,222 | 82,915 | 575,009 |
| Home Mortgage | 74,096 | 508 | 1,867 | 71,720 |
| Invest. Interest < Invest. Income <u>3/</u> | 524,882 | 8,433 | 69,777 | 446,673 |
| Invest. Interest > Invest. Income <u>4/</u> | 72,168 | 4,280 | 11,272 | 56,616 |
| Medical | 37,243 | 226 | 2,497 | 34,519 |
| Casualty | 22,489 | 3,695 | 1,103 | 17,692 |
| Tax Expense | 1,138,616 | 1,444 | 19,178 | 1,117,994 |
| Miscellaneous Deductions | 352,691 | 6,884 | 23,148 | 322,659 |
| Excess of Exemptions & Deductions over AGI | 22,501 | 9,202 | 6,865 | 6,434 |
| Taxable Income | 12,213,481 | 5,151 | 50,274 | 12,158,056 |
| Tax at Normal Rates | 7,414,525 | 3,217 | 29,499 | 7,381,809 |
| Saving from Alternative Tax <u>5/</u> | 39,311 | 0 | 63 | 39,248 |
| Saving from Maximum Tax <u>5/</u> | 467,235 | 176 | 1,975 | 465,085 |
| Saving from Income Averaging | 100,073 | 28 | 790 | 99,254 |
| Tax Before Credits | 6,816,240 | 3,015 | 26,677 | 6,786,549 |
| Tax Credits | 170,890 | 3,015 | 22,774 | 145,100 |
| Foreign Tax Credit | 66,856 | 2,954 | 21,301 | 42,601 |
| Investment Credit | 103,517 | 61 | 1,471 | 101,985 |
| All Other Credits <u>6/</u> | 517 | 0 | 2 | 514 |
| Tax After Credits | 6,645,350 | 0 | 3,902 | 6,641,448 |
| Minimum Tax | 356,145 | 0 | 8,739 | 347,406 |
| Total Income Tax | 7,001,496 | 0 | 12,641 | 6,988,855 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 253,958 | 4,847 | 35,573 | 213,538 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 11,341,035 | 4,847 | 45,901 | 11,290,287 |
| Income Tax after Credits | 11,087,077 | 0 | 10,328 | 11,076,749 |
| Total Income Tax | 11,615,200 | 0 | 27,703 | 11,587,497 |
| Number of Tax Returns Represented in the tabulation | 41,761 | 68 | 411 | 41,282 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0% | 100.0 % |
| EXPANDED INCOME | 120.2 | 70.9 | 74.4 | 120.9 |
| AGI PLUS PREFERENCES | 123.6 | 108.7 | 107.4 | 123.8 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 96.7 | 63.8 | 68.0 | 97.1 |
| Investment Interest < Investment Income <u>1/</u> | 3.3 | 36.2 | 32.0 | 2.9 |
| Tax Preferences | 23.6 | 8.7 | 7.4 | 23.8 |
| Excluded Long-Term Capital Gains | 17.7 | 8.4 | 5.1 | 17.9 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 5.8 | 0.3 | 2.3 | 5.9 |
| ADJUSTED GROSS INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Exemptions | 0.7 | 0.8 | 0.5 | 0.7 |
| Standard Deductions | * | 0 | * | * |
| Itemized Deductions | 21.8 | 116.6 | 79.6 | 20.8 |
| Charitable Contributions | 7.7 | 7.2 | 20.5 | 7.5 |
| Interest: Total | 4.3 | 56.8 | 38.0 | 3.7 |
| Home Mortgage | 0.5 | 2.2 | 0.9 | 0.5 |
| Invest. Interest < Invest. Income <u>3/</u> | 3.3 | 36.2 | 32.0 | 2.9 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.5 | 18.4 | 5.2 | 0.4 |
| Medical | 0.2 | 1.0 | 1.2 | 0.2 |
| Casualty | 0.1 | 15.9 | 0.5 | 0.1 |
| Tax Expense | 7.2 | 6.2 | 8.8 | 7.2 |
| Miscellaneous Deductions | 2.2 | 29.6 | 10.6 | 2.1 |
| Excess of Exemptions & Deductions over AGI | 0.1 | 39.5 | 3.2 | * |
| Taxable Income | 77.6 | 22.1 | 23.1 | 78.5 |
| Tax at Normal Rates | 47.1 | 13.8 | 13.5 | 47.6 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 3.0 | 0.8 | 0.9 | 3.0 |
| Saving from Income Averaging | 0.6 | 0.1 | 0.4 | 0.6 |
| Tax Before Credits | 43.3 | 13.0 | 12.2 | 43.8 |
| Tax Credits | 1.1 | 13.0 | 10.4 | 0.9 |
| Foreign Tax Credit | 0.4 | 12.7 | 9.8 | 0.3 |
| Investment Credit | 0.7 | 0.3 | 0.7 | 0.7 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 42.2 | 0 | 1.8 | 42.9 |
| Minimum Tax | 2.3 | 0 | 4.0 | 2.2 |
| Total Income Tax | 44.5 | 0 | 5.8 | 45.2 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.6 | 20.8 | 16.3 | 1.4 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 72.1 | 20.8 | 21.1 | 72.9 |
| Income Tax after Credits | 70.5 | 0 | 4.7 | 71.5 |
| Total Income Tax | 73.8 | 0 | 12.7 | 74.8 |
| Number of Tax Returns Represented in the tabulation | 41,761 | 68 | 411 | 41,282 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Table 76-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

| | All Returns | Nontaxable Returns | Nearly Nontaxable Returns | All Other Taxable Returns |
|---|----------------|-----------------------|---------------------------------|---------------------------------|
| INCOME, PER CONCEPT | \$ 23,332,268 | \$ 42,198 | \$ 556,613 | \$ 22,733,457 |
| EXPANDED INCOME | 22,683,261 | 32,922 | 424,736 | 22,225,603 |
| AGI PLUS PREFERENCES | 23,332,268 | 42,198 | 556,613 | 22,733,457 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 17,252,819 | 16,051 | 251,902 | 16,984,866 |
| Investment Interest < Investment Income <u>1/</u> | 649,007 | 9,276 | 131,877 | 507,854 |
| Tax Preferences | 5,445,035 | 17,251 | 177,251 | 5,250,532 |
| Excluded Long-Term Capital Gains | 4,021,577 | 16,019 | 139,048 | 3,866,510 |
| Dividend Exclusion | 8,167 | 14 | 124 | 8,029 |
| Other Tax Preferences <u>2/</u> | 1,415,291 | 1,218 | 38,080 | 1,275,993 |
| ADJUSTED GROSS INCOME | 17,916,857 | 28,097 | 385,950 | 17,502,810 |
| Deficits | - 29,623 | -3,149 | - 6,588 | - 19,885 |
| AGI of Returns with AGI > 0 | 17,887,233 | 24,947 | 379,362 | 17,482,924 |
| Exemptions | 150,599 | 291 | 2,486 | 147,822 |
| Standard Deductions | 3,182 | 2 | 16 | 3,164 |
| Itemized Deductions | 3,968,676 | 61,323 | 310,792 | 3,596,561 |
| Charitable Contributions | 1,351,366 | 30,904 | 72,732 | 1,247,730 |
| Interest: Total | 814,716 | 13,699 | 149,383 | 651,635 |
| Home Mortgage | 100,504 | 522 | 4,512 | 95,470 |
| Invest. Interest < Invest. Income <u>3/</u> | 634,415 | 8,896 | 127,460 | 498,059 |
| Invest. Interest > Invest. Income <u>4/</u> | 79,798 | 4,280 | 17,411 | 58,106 |
| Medical | 46,255 | 289 | 3,225 | 42,741 |
| Casualty | 30,268 | 7,041 | 3,442 | 19,785 |
| Tax Expense | 1,311,517 | 1,911 | 40,353 | 1,269,253 |
| Miscellaneous Deductions | 414,554 | 7,479 | 41,657 | 365,418 |
| Excess of Exemptions & Deductions over AGI | 67,754 | 38,671 | 14,239 | 14,844 |
| Taxable Income | 13,862,153 | 5,151 | 86,895 | 13,770,107 |
| Tax at Normal Rates | 8,220,784 | 2,217 | 48,116 | 8,170,451 |
| Saving from Alternative Tax <u>5/</u> | 49,859 | 0 | 175 | 49,684 |
| Saving from Maximum Tax <u>5/</u> | 476,442 | 176 | 2,052 | 474,214 |
| Saving from Income Averaging | 148,258 | 28 | 3,452 | 144,778 |
| Tax Before Credits | 7,565,917 | 3,015 | 42,447 | 7,520,456 |
| Tax Credits | 206,853 | 3,015 | 34,437 | 169,402 |
| Foreign Tax Credit | 75,802 | 2,954 | 29,510 | 43,339 |
| Investment Credit | 130,371 | 61 | 4,907 | 125,403 |
| All Other Credits <u>6/</u> | 680 | 0 | 20 | 660 |
| Tax After Credits | 7,359,064 | 0 | 8,011 | 7,351,054 |
| Minimum Tax | 552,240 | 0 | 32,883 | 519,357 |
| Total Income Tax | 7,911,305 | 0 | 40,894 | 7,870,411 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 323,376 | 4,847 | 56,669 | 261,860 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 12,882,439 | 4,847 | 77,456 | 12,800,136 |
| Income Tax after Credits | 12,559,063 | 0 | 20,787 | 12,538,276 |
| Total Income Tax | 13,437,036 | 0 | 81,874 | 13,355,162 |
| Number of Tax Returns Represented in the tabulation | 56,512 | 114 | 919 | 55,479 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-6

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income Plus Preferences

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 97.2 | 78.0 | 76.3 | 97.8 |
| AGI PLUS PREFERENCES | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 73.9 | 38.0 | 45.3 | 74.7 |
| Investment Interest < Investment Income <u>1/</u> | 2.8 | 22.0 | 23.7 | 2.2 |
| Tax Preferences | 23.3 | 40.9 | 31.8 | 23.1 |
| Excluded Long-Term Capital Gains | 17.2 | 38.0 | 25.0 | 17.0 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 6.1 | 2.9 | 6.8 | 6.0 |
| ADJUSTED GROSS INCOME | 76.8 | 66.6 | 69.3 | 77.0 |
| Deficits | - 0.1 | - 7.5 | - 1.2 | - 0.1 |
| AGI of Returns with AGI > 0 | 76.7 | 59.1 | 68.2 | 76.9 |
| Exemptions | 0.6 | 0.7 | 0.4 | 0.6 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 17.0 | 145.3 | 55.8 | 15.8 |
| Charitable Contributions | 5.8 | 73.2 | 13.1 | 5.5 |
| Interest: Total | 3.5 | 32.5 | 26.8 | 2.9 |
| Home Mortgage | * | 1.2 | 0.8 | 0.4 |
| Invest. Interest < Invest. Income <u>3/</u> | 2.7 | 21.1 | 22.9 | 2.2 |
| Invest. Interest > Invest. Income <u>4/</u> | * | 10.1 | 3.1 | 0.3 |
| Medical | * | 0.7 | 0.6 | 0.2 |
| Casualty | * | 16.7 | 0.6 | 0.1 |
| Tax Expense | 5.6 | 4.5 | 7.2 | 5.6 |
| Miscellaneous Deductions | 1.8 | 17.7 | 7.5 | 1.6 |
| Excess of Exemptions & Deductions over AGI | 0.3 | 91.6 | 2.6 | 0.1 |
| Taxable Income | 59.4 | 12.2 | 15.6 | 60.6 |
| Tax at Normal Rates | 35.3 | 7.6 | 9.6 | 36.0 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 2.0 | 0.4 | 0.4 | 2.1 |
| Saving from Income Averaging | 0.6 | 0.1 | 0.6 | 0.6 |
| Tax Before Credits | 32.4 | 7.1 | 7.6 | 33.1 |
| Tax Credits | 0.9 | 7.1 | 6.2 | 0.8 |
| Foreign Tax Credit | 0.3 | 7.0 | 5.3 | 0.2 |
| Investment Credit | 0.6 | 0.1 | 0.9 | 0.6 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 31.5 | 0 | 1.4 | 32.3 |
| Minimum Tax | 2.4 | 0 | 5.9 | 2.3 |
| Total Income Tax | 33.9 | 0 | 7.4 | 34.6 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.4 | 11.5 | 10.2 | 1.2 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 55.2 | 11.5 | 13.9 | 56.3 |
| Income Tax after Credits | 53.8 | 0 | 3.7 | 55.2 |
| Total Income Tax | 57.6 | 0 | 14.7 | 58.8 |
| Number of Tax Returns Represented in the tabulation | 56,512 | 114 | 919 | 55,479 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Table 76-7

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

| | : | : | : | : |
|---|---------------|------------|------------|---------------|
| | All | Nontaxable | Nearly | All Other |
| | Returns | Returns | Nontaxable | Taxable |
| | Returns | Returns | Returns | Returns |
| INCOME, PER CONCEPT | \$ 14,793,632 | \$ 13,507 | \$ 86,059 | \$ 14,694,066 |
| EXPANDED INCOME | 18,360,566 | 14,204 | 89,854 | 18,256,508 |
| AGI PLUS PREFERENCES | 18,752,424 | 16,352 | 96,302 | 18,639,770 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 14,793,632 | 13,507 | 86,059 | 14,694,066 |
| Investment Interest < Investment Income <u>1/</u> | 382,212 | 1,985 | 6,122 | 374,106 |
| Tax Preferences | 3,576,580 | 860 | 4,121 | 3,571,599 |
| Excluded Long-Term Capital Gains | 2,682,455 | 857 | 2,403 | 2,679,194 |
| Dividend Exclusion | 5,753 | 3 | 21 | 5,729 |
| Other Tax Preferences <u>2/</u> | 888,372 | 0 | 1,697 | 886,676 |
| ADJUSTED GROSS INCOME | 15,175,844 | 15,492 | 92,181 | 15,068,171 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 15,175,844 | 15,492 | 92,181 | 15,068,171 |
| Exemptions | 104,624 | 98 | 475 | 104,051 |
| Standard Deductions | 1,410 | 0 | 3 | 1,407 |
| Itemized Deductions | 3,163,075 | 16,837 | 53,622 | 3,092,616 |
| Charitable Contributions | 1,167,757 | 1,261 | 18,868 | 1,147,628 |
| Interest: Total | 510,244 | 4,282 | 9,468 | 496,494 |
| Home Mortgage | 68,301 | 355 | 448 | 67,498 |
| Invest. Interest < Invest. Income <u>3/</u> | 382,212 | 1,985 | 6,122 | 374,106 |
| Invest. Interest > Invest. Income <u>4/</u> | 59,731 | 1,942 | 2,898 | 54,891 |
| Medical | 35,036 | 100 | 1,543 | 33,393 |
| Casualty | 20,144 | 3,693 | 1,016 | 15,436 |
| Tax Expense | 1,097,504 | 983 | 9,012 | 1,087,509 |
| Miscellaneous Deductions | 332,389 | 6,518 | 13,716 | 312,155 |
| Excess of Exemptions & Deductions over AGI | 12,210 | 6,438 | 829 | 4,943 |
| Taxable income | 11,918,947 | 4,995 | 38,911 | 11,875,041 |
| Tax at Normal Rates | 7,264,768 | 3,158 | 24,305 | 7,237,304 |
| Saving from Alternative Tax <u>5/</u> | 37,723 | 0 | 33 | 37,690 |
| Saving from Maximum Tax <u>5/</u> | 461,810 | 176 | 1,900 | 459,733 |
| Saving from Income Averaging | 96,852 | 10 | 216 | 96,626 |
| Tax Before Credits | 6,676,197 | 2,973 | 22,156 | 6,651,067 |
| Tax Credits | 165,023 | 2,974 | 20,537 | 141,513 |
| Foreign Tax Credit | 65,009 | 2,954 | 19,938 | 42,118 |
| Investment Credit | 99,554 | 20 | 599 | 98,935 |
| All Other Credits <u>6/</u> | 460 | 0 | 0 | 460 |
| Tax After Credits | 6,511,173 | 0 | 1,619 | 6,509,555 |
| Minimum Tax | 337,624 | 0 | 2,283 | 335,341 |
| Total Income Tax | 6,848,797 | 0 | 3,901 | 6,844,896 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 243,415 | 4,726 | 31,324 | 207,368 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 11,062,050 | 4,726 | 35,725 | 11,021,600 |
| Income Tax after Credits | 10,818,635 | 0 | 4,401 | 10,814,232 |
| Total Income Tax | 11,312,105 | 0 | 9,120 | 11,302,985 |
| Number of Tax Returns Represented in the tabulation | 39,346 | 42 | 178 | 39,126 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income minus Investment Interest

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 124.1 | 105.2 | 104.4 | 124.2 |
| AGI PLUS PREFERENCES | 126.8 | 121.1 | 111.9 | 126.8 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Investment Interest < Investment Income <u>1/</u> | 2.6 | 14.7 | 7.1 | 2.6 |
| Tax Preferences | 24.2 | 6.4 | 4.8 | 24.3 |
| Excluded Long-Term Capital Gains | 18.1 | 6.3 | 2.8 | 18.2 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 6.0 | 0 | 2.0 | 6.0 |
| ADJUSTED GROSS INCOME | 102.6 | 114.7 | 107.1 | 102.6 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 102.6 | 114.7 | 107.1 | 102.6 |
| Exemptions | 0.7 | 0.7 | 0.6 | 0.7 |
| Standard Deductions | * | 0 | * | * |
| Itemized Deductions | 21.4 | 124.6 | 62.3 | 21.0 |
| Charitable Contributions | 7.9 | 9.3 | 21.9 | 7.8 |
| Interest: Total | 3.4 | 31.7 | 11.0 | 3.4 |
| Home Mortgage | 0.5 | 2.6 | 0.5 | 0.5 |
| Invest. Interest < Invest. Income <u>3/</u> | 2.6 | 14.7 | 7.1 | 2.6 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.4 | 14.4 | 3.4 | 0.4 |
| Medical | 0.2 | 0.7 | 1.8 | 0.2 |
| Casualty | 0.1 | 27.3 | 1.2 | 0.1 |
| Tax Expense | 7.4 | 7.3 | 10.5 | 7.4 |
| Miscellaneous Deductions | 2.2 | 48.3 | 15.9 | 2.1 |
| Excess of Exemptions & Deductions over AGI | 0.1 | 47.7 | 1.0 | * |
| Taxable Income | 80.6 | 37.0 | 45.2 | 80.8 |
| Tax at Normal Rates | 49.1 | 23.4 | 28.2 | 49.2 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | * | 0.3 |
| Saving from Maximum Tax <u>5/</u> | 3.1 | 1.3 | 2.2 | 3.1 |
| Saving from Income Averaging | 0.6 | 0.1 | 0.2 | 0.7 |
| Tax Before Credits | 45.1 | 22.0 | 25.8 | 45.3 |
| Tax Credits | 1.1 | 22.0 | 23.9 | 1.0 |
| Foreign Tax Credit | 0.4 | 21.9 | 23.2 | 0.3 |
| Investment Credit | 0.7 | 0.2 | 0.7 | 0.7 |
| All Other Credits <u>6/</u> | * | 0 | 0 | * |
| Tax After Credits | 44.0 | 0 | 1.9 | 44.3 |
| Minimum Tax | 2.3 | 0 | 2.6 | 2.3 |
| Total Income Tax | 46.3 | 0 | 4.5 | 46.6 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.6 | 35.0 | 36.4 | 1.4 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 74.8 | 35.0 | 41.5 | 75.0 |
| Income Tax after Credits | 73.1 | 0 | 5.1 | 73.6 |
| Total Income Tax | 76.5 | 0 | 10.6 | 76.9 |
| Number of Tax Returns Represented in the tabulation | 39,346 | 42 | 178 | 39,126 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Uniform Footnotes for Tables in Appendices A, B, and C

1. Investment interest not in excess of investment income. Investment interest is defined as total interest paid less mortgage interest. Investment income consists of dividends (before the \$100 exclusion), interest, and realized capital gains (including the exceeded portion of long-term capital gains).
2. The amount of percentage depletion in excess of the adjusted basis of the property. The excess of accelerated over straight-line depreciation on low income rental housing, on other real property, and on personal property subject to a net lease. Rapid amortization deductions in excess of otherwise allowable depreciation for certified pollution control facilities, railroad rolling stock, and on-the-job training and child care facilities.
3. Investment interest not in excess of investment income. Investment interest is defined as total interest paid less mortgage interest. Investment income consists of dividends (net of the \$100 exclusion), interest, and realized capital gains after deducting the excluded portion of long-term capital gains. This definition differs from the definition in footnote 1 because the excluded portion of long-term capital gains and the dividend exclusion are omitted from AGI whereas they are included in expanded income.
4. Investment interest in excess of investment income. Investment interest (as defined in footnote 3) in excess of the the amount allowed as investment interest not in excess of investment income.
5. Savings from the alternative tax or the minimum tax on earned income are included on the appropriate line even if the taxpayer foregoes them in order to calculate his tax liability under the income averaging procedure.
6. All other credits include the child care credit, the credit for contributions to candidates for public offices, the retirement income credit or the credit for the elderly (depending on the year), the work incentive (WIN) credit, the credit for purchase of a new residence, and the earned income credit. The general tax credit not included.

7. The deduction equivalent of tax credits is calculated in order to allow the relative importance of deductions and credits to be compared. The deduction equivalent is defined as the difference between the taxable income which would yield tax before credits and the taxable income which would yield tax after credits.
8. The amount of income which taxed under the appropriate ordinary tax rate schedule would yield tax after credits plus the minimum tax. For purposes of this computation, the general tax credits available in 1975 and 1976 have been ignored.

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Table 76-9

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
--All Returns, 1976

| | : | : | : | : | : | : |
|---|--|------------|-------------|--------------|-----------|---|
| | : | Less Than | \$50,000 to | \$100,000 to | \$200,000 | |
| | Total | \$50,000 | \$100,000 | \$200,000 | and over | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | <u>Adjusted Gross Income</u> | | | | | |
| Total | 84,670,389 | 83,495,452 | 948,034 | 185,142 | 41,761 | |
| Less than \$ 50,000 | 83,408,673 | 83,389,317 | 19,149 | 193 | 14 | |
| \$ 50,000 to \$100,000 | 1,003,851 | 103,478 | 894,752 | 5,597 | 24 | |
| \$100,000 to \$200,000 | 204,278 | 2,058 | 33,287 | 167,745 | 1,188 | |
| \$200,000 and over | 53,587 | 599 | 846 | 11,607 | 40,535 | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | <u>Adjusted Gross Income plus Preferences</u> | | | | | |
| Total | 84,670,389 | 83,379,625 | 1,021,791 | 212,461 | 56,512 | |
| Less than \$ 50,000 | 83,408,673 | 83,379,625 | 28,822 | 195 | 31 | |
| \$ 50,000 to \$100,000 | 1,003,851 | | 992,969 | 10,858 | 24 | |
| \$100,000 to \$200,000 | 204,278 | | | 201,408 | 2,870 | |
| \$200,000 and over | 53,587 | | | | 53,587 | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | <u>Adjusted Gross Income minus Investment Interest</u> | | | | | |
| Total | 84,670,389 | 83,528,276 | 925,833 | 176,934 | 39,346 | |
| Less than \$ 50,000 | 83,408,673 | 83,408,673 | | | | |
| \$ 50,000 to \$100,000 | 1,003,851 | 116,367 | 887,484 | | | |
| \$100,000 to \$200,000 | 204,278 | 2,529 | 37,337 | 164,412 | | |
| \$200,000 and over | 53,587 | 707 | 1,012 | 12,522 | 39,346 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income</u> | <u>Adjusted Gross Income plus Preferences</u> | | | | | |
| Total | 84,670,389 | 83,379,625 | 1,021,791 | 212,461 | 56,512 | |
| Less than \$ 50,000 | 83,495,452 | | 113,100 | 2,120 | 607 | |
| \$ 50,000 to \$100,000 | 948,034 | | 908,691 | 38,338 | 1,005 | |
| \$100,000 to \$200,000 | 185,142 | | | 172,003 | 13,139 | |
| \$200,000 and over | 41,761 | | | | 41,761 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income</u> | <u>Adjusted Gross Income minus Investment Interest</u> | | | | | |
| Total | 84,670,389 | 83,528,276 | 925,833 | 176,934 | 39,346 | |
| Less than \$ 50,000 | 83,495,452 | 83,495,452 | | | | |
| \$ 50,000 to \$100,000 | 948,034 | 32,460 | 915,574 | | | |
| \$100,000 to \$200,000 | 185,142 | 326 | 10,160 | 174,656 | | |
| \$200,000 and over | 41,761 | 38 | 99 | 2,278 | 39,346 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income plus Preferences</u> | <u>Adjusted Gross Income minus Investment Interest</u> | | | | | |
| Total | 84,670,389 | 83,528,276 | 925,833 | 176,934 | 39,346 | |
| Less than \$ 50,000 | 83,379,625 | 83,379,625 | | | | |
| \$ 50,000 to \$100,000 | 1,021,791 | 144,262 | 877,529 | | | |
| \$100,000 to \$200,000 | 212,461 | 3,560 | 46,828 | 162,073 | | |
| \$200,000 and over | 56,512 | 829 | 1,476 | 14,861 | 39,346 | |

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Source: 1976 Statistics of Income.

Table 76-10

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
-- Nontaxable Returns, 1976

| | : | : | Less Than | : | \$50,000 to | : | \$100,000 to | : | \$200,000 |
|---|---|------------|-----------|------------|-------------|-----------|--------------|-----------|-----------|
| | : | Total | : | \$50,000 | : | \$100,000 | : | \$200,000 | and over |
| <hr/> | | | | | | | | | |
| <u>Expanded Income</u> | | | | | | | | | |
| -----Adjusted Gross Income----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,245,282 | | 3,180 | | 492 | 68 |
| Less than \$ 50,000 | | 20,244,296 | | 20,243,890 | | 393 | | 3 | 10 |
| \$ 50,000 to \$100,000 | | 4,104 | | 1,271 | | 2,765 | | 64 | 4 |
| \$100,000 to \$200,000 | | 533 | | 109 | | 7 | | 406 | 11 |
| \$200,000 and over | | 89 | | 12 | | 15 | | 19 | 43 |
| <u>Expanded Income</u> | | | | | | | | | |
| -----Adjusted Gross Income plus Preferences----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,243,728 | | 4,480 | | 700 | 114 |
| Less than \$ 50,000 | | 20,244,296 | | 20,243,728 | | 554 | | 4 | 10 |
| \$ 50,000 to \$100,000 | | 4,104 | | | | 3,926 | | 174 | 4 |
| \$100,000 to \$200,000 | | 533 | | | | | | 522 | 11 |
| \$200,000 and over | | 89 | | | | | | | 89 |
| <u>Expanded Income</u> | | | | | | | | | |
| -----Adjusted Gross Income minus Investment Interest----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,245,824 | | 2,721 | | 435 | 42 |
| Less than \$ 50,000 | | 20,244,296 | | 20,244,296 | | | | | |
| \$ 50,000 to \$100,000 | | 4,104 | | 1,405 | | 2,699 | | | |
| \$100,000 to \$200,000 | | 533 | | 110 | | 7 | | 416 | |
| \$200,000 and over | | 89 | | 13 | | 15 | | 19 | 42 |
| <u>Adjusted Gross Income</u> | | | | | | | | | |
| -----Adjusted Gross Income plus Preferences----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,243,728 | | 4,480 | | 700 | 114 |
| Less than \$ 50,000 | | 20,245,282 | | 20,243,728 | | 1,432 | | 110 | 12 |
| \$ 50,000 to \$100,000 | | 3,180 | | | | 3,048 | | 117 | 15 |
| \$100,000 to \$200,000 | | 492 | | | | | | 473 | 19 |
| \$200,000 and over | | 68 | | | | | | | 68 |
| <u>Adjusted Gross Income</u> | | | | | | | | | |
| -----Adjusted Gross Income minus Investment Interest----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,245,824 | | 2,721 | | 435 | 42 |
| Less than \$ 50,000 | | 20,245,282 | | 20,245,282 | | | | | |
| \$ 50,000 to \$100,000 | | 3,180 | | 504 | | 2,676 | | | |
| \$100,000 to \$200,000 | | 492 | | 27 | | 40 | | 425 | |
| \$200,000 and over | | 68 | | 11 | | 5 | | 10 | 42 |
| <u>Adjusted Gross Income</u> | | | | | | | | | |
| <u>plus Preferences</u> | | | | | | | | | |
| -----Adjusted Gross Income minus Investment Interest----- | | | | | | | | | |
| Total | | 20,249,022 | | 20,245,824 | | 2,721 | | 435 | 42 |
| Less than \$ 50,000 | | 20,243,728 | | 20,243,728 | | | | | |
| \$ 50,000 to \$100,000 | | 4,480 | | 1,825 | | 2,655 | | | |
| \$100,000 to \$200,000 | | 700 | | 248 | | 46 | | 406 | |
| \$200,000 and over | | 114 | | 23 | | 20 | | 29 | 42 |

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Source: 1976 Statistics of Income

Appendix E

1975 Data

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Table 75-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

| | : All : Returns | : Nontaxable : Returns | : Nearly : Nontaxable : Returns | : All Other : Taxable : Returns |
|---|--------------------|---------------------------|---------------------------------------|---------------------------------------|
| INCOME, PER CONCEPT | 16,852,472 | 81,111 | 824,351 | 15,947,009 |
| EXPANDED INCOME | 16,852,472 | 81,111 | 824,351 | 15,947,009 |
| AGI PLUS PREFERENCES | 17,318,131 | 97,916 | 948,605 | 16,271,609 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 13,161,611 | 44,316 | 356,026 | 12,761,269 |
| Investment Interest < Investment Income <u>1/</u> | 465,659 | 16,805 | 124,254 | 324,601 |
| Tax Preferences | 3,700,821 | 37,348 | 473,920 | 3,189,555 |
| Excluded Long-Term Capital Gains | 3,097,209 | 34,850 | 389,018 | 2,673,342 |
| Dividend Exclusion | 5,913 | 26 | 207 | 5,681 |
| Other Tax Preferences <u>2/</u> | 597,699 | 2,471 | 84,695 | 510,532 |
| ADJUSTED GROSS INCOME | 13,643,754 | 67,705 | 482,361 | 13,093,688 |
| Deficits | - 26,442 | - 7,134 | - 7,676 | - 11,631 |
| AGI of Returns with AGI > 0 | 13,617,309 | 60,569 | 474,685 | 13,082,057 |
| Exemptions | 107,622 | 602 | 3,887 | 103,133 |
| Standard Deductions | 2,580 | 7 | 54 | 2,520 |
| Itemized Deductions | 2,975,329 | 74,894 | 383,085 | 2,517,350 |
| Charitable Contributions | 1,016,809 | 11,127 | 96,624 | 909,058 |
| Interest: Total | 594,532 | 31,292 | 148,522 | 414,717 |
| Home Mortgage | 61,658 | 664 | 6,585 | 54,408 |
| Invest. Interest < Invest. Income <u>3/</u> | 455,699 | 16,253 | 118,659 | 320,787 |
| Invest. Interest > Invest. Income <u>4/</u> | 77,175 | 14,375 | 23,278 | 39,523 |
| Medical | 31,147 | 401 | 2,997 | 27,750 |
| Casualty | 24,052 | 7,772 | 3,530 | 12,750 |
| Tax Expense | 969,228 | 8,228 | 54,813 | 906,186 |
| Miscellaneous Deductions | 339,561 | 16,074 | 76,599 | 246,889 |
| Excess of Exemptions & Deductions over AGI | 31,897 | 15,102 | 14,266 | 2,530 |
| Taxable Income | 10,590,121 | 7,305 | 109,602 | 10,473,215 |
| Tax at Normal Rates | 6,340,213 | 4,317 | 57,188 | 6,278,708 |
| Saving from Alternative Tax <u>5/</u> | 31,149 | 12 | 164 | 30,973 |
| Saving from Maximum Tax <u>5/</u> | 334,153 | 180 | 1,050 | 332,923 |
| Saving from Income Averaging | 123,664 | 198 | 3,777 | 119,689 |
| Tax Before Credits | 5,853,658 | 3,926 | 52,194 | 5,797,538 |
| Tax Credits | 157,176 | 3,926 | 34,570 | 118,677 |
| Foreign Tax Credit | 56,069 | 3,681 | 24,894 | 27,494 |
| Investment Credit | 99,451 | 241 | 9,662 | 89,547 |
| All Other Credits <u>6/</u> | 1,656 | 4 | 14 | 1,636 |
| Tax After Credits | 5,696,482 | 0 | 17,621 | 5,678,860 |
| Minimum Tax | 109,981 | 0 | 36,632 | 73,348 |
| Total Income Tax | 5,806,462 | 0 | 54,254 | 5,752,209 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 240,178 | 6,728 | 58,157 | 175,292 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 9,878,904 | 6,728 | 101,285 | 9,770,891 |
| Income Tax after Credits | 9,638,726 | 0 | 43,128 | 9,595,599 |
| Total Income Tax | 9,826,656 | 0 | 113,030 | 9,713,628 |
| Number of Tax Returns Represented in the tabulation | 40,884 | 215 | 1,409 | 39,260 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1975

As Percentages of Expanded Income

| | : All Returns | : Nontaxable Returns | : Nearly Nontaxable Returns | : All Other Taxable Returns |
|--|---------------------|----------------------------|--------------------------------------|--------------------------------------|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI PLUS PREFERENCES | 102.8 | 120.7 | 115.1 | 102.0 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 78.1 | 54.6 | 43.2 | 80.0 |
| Investment Interest < Investment Income <u>1/</u> | 2.8 | 20.7 | 15.1 | 2.0 |
| Tax Preferences | 22.0 | 46.0 | 57.5 | 20.0 |
| Excluded Long-Term Capital Gains | 18.4 | 43.0 | 47.2 | 16.8 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 3.6 | 3.0 | 10.3 | 3.2 |
| ADJUSTED GROSS INCOME | 81.0 | 83.5 | 58.5 | 82.1 |
| Deficits | - 0.2 | - 8.8 | - 0.9 | - 0.1 |
| AGI of Returns with AGI > 0 | 80.8 | 74.7 | 57.6 | 82.0 |
| Exemptions | 0.6 | 0.7 | 0.5 | 0.6 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 17.7 | 92.3 | 46.5 | 15.8 |
| Charitable Contributions | 6.0 | 13.7 | 11.7 | 5.7 |
| Interest: Total | 3.5 | 38.6 | 18.0 | 2.6 |
| Home Mortgage | 0.4 | 0.8 | 0.8 | 0.3 |
| Invest. Interest < Invest. Income <u>3/</u> | 2.7 | 20.0 | 14.4 | 2.0 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.5 | 17.7 | 2.8 | 0.2 |
| Medical | 0.2 | 0.5 | 0.4 | 0.2 |
| Casualty | 0.1 | 9.6 | 0.4 | 0.1 |
| Tax Expense | 5.8 | 10.1 | 6.6 | 5.7 |
| Miscellaneous Deductions | 2.0 | 19.8 | 9.3 | 1.6 |
| Excess of Exemptions & Deductions over AGI | 0.2 | 18.6 | 1.7 | * |
| Taxable Income | 62.8 | 9.0 | 13.3 | 65.7 |
| Tax at Normal Rates | 37.6 | 5.3 | 6.9 | 39.4 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | * | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 2.0 | 0.2 | 0.1 | 2.1 |
| Saving from Income Averaging | 0.7 | 0.2 | 0.5 | 0.8 |
| Tax Before Credits | 34.7 | 4.8 | 6.3 | 36.4 |
| Tax Credits | 0.9 | 4.8 | 4.2 | 0.7 |
| Foreign Tax Credit | 0.3 | 4.5 | 3.0 | 0.2 |
| Investment Credit | 0.6 | 0.3 | 1.2 | 0.6 |
| All Other Credits <u>6/</u> | * | * | * | * |
| Tax After Credits | 33.8 | 0 | 2.1 | 35.6 |
| Minimum Tax | 0.6 | 0 | 4.4 | 0.5 |
| Total Income Tax | 34.4 | 0 | 6.6 | 36.1 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.4 | 8.3 | 7.0 | 1.1 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 58.6 | 8.3 | 12.3 | 61.3 |
| Income Tax after Credits | 57.2 | 0 | 5.2 | 60.2 |
| Total Income Tax | 58.3 | 0 | 13.7 | 60.9 |
| Number of Tax Returns Represented in the tabulation | 40,884 | 215 | 1,409 | 39,260 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-3

Income, Deductions, Credits and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or over -- 1975

Aggregate Data
(\$ in thousands)

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|---|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 12,682,728 | 117,100 | 382,812 | 12,182,817 |
| EXPANDED INCOME | 14,779,494 | 65,809 | 330,472 | 14,393,214 |
| AGI PLUS PREFERENCES | 15,326,302 | 124,283 | 467,749 | 14,734,271 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 12,148,688 | 60,027 | 242,992 | 11,845,670 |
| Investment Interest < Investment Income <u>1/</u> | 534,039 | 57,073 | 139,819 | 337,147 |
| Tax Preferences | 2,643,575 | 7,183 | 84,938 | 2,551,454 |
| Excluded Long-Term Capital Gains | 2,191,266 | 6,212 | 65,815 | 2,119,238 |
| Dividend Exclusion | 4,960 | 38 | 115 | 4,807 |
| Other Tax Preferences <u>2/</u> | 447,349 | 932 | 19,007 | 427,409 |
| ADJUSTED GROSS INCOME | 12,682,728 | 117,100 | 382,812 | 12,182,817 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 12,682,728 | 117,100 | 382,812 | 12,182,817 |
| Exemptions | 89,711 | 701 | 2,004 | 87,007 |
| Standard Deductions | 1,484 | 7 | 13 | 1,465 |
| Itemized Deductions | 2,901,840 | 127,044 | 319,771 | 2,455,025 |
| Charitable Contributions | 968,519 | 13,661 | 64,160 | 890,698 |
| Interest: Total | 681,502 | 80,416 | 172,118 | 428,969 |
| Home Mortgage | 54,248 | 1,155 | 4,961 | 48,133 |
| Invest. Interest < Invest. Income <u>3/</u> | 534,039 | 57,073 | 139,819 | 337,147 |
| Invest. Interest > Invest. Income <u>4/</u> | 93,216 | 22,187 | 27,340 | 43,690 |
| Medical | 25,238 | 537 | 1,469 | 23,232 |
| Casualty | 18,848 | 3,967 | 2,709 | 12,172 |
| Tax Expense | 891,328 | 10,015 | 32,305 | 849,008 |
| Miscellaneous Deductions | 316,404 | 18,448 | 47,011 | 250,945 |
| Excess of Exemptions & Deductions over AGI | 31,026 | 18,228 | 8,011 | 4,787 |
| Taxable Income | 9,720,721 | 7,576 | 69,036 | 9,644,108 |
| Tax at Normal Rates | 5,903,344 | 4,404 | 37,816 | 5,861,123 |
| Saving from Alternative Tax <u>5/</u> | 25,541 | 12 | 119 | 25,410 |
| Saving from Maximum Tax <u>5/</u> | 333,701 | 180 | 1,010 | 332,512 |
| Saving from Income Averaging | 88,003 | 199 | 1,485 | 86,319 |
| Tax Before Credits | 5,457,908 | 4,012 | 35,202 | 5,418,694 |
| Tax Credits | 141,285 | 4,011 | 24,706 | 112,563 |
| Foreign Tax Credit | 54,100 | 3,763 | 22,049 | 28,286 |
| Investment Credit | 85,859 | 243 | 2,650 | 82,963 |
| All Other Credits <u>6/</u> | 1,326 | 5 | 7 | 1,314 |
| Tax After Credits | 5,316,625 | 0 | 10,493 | 5,306,132 |
| Minimum Tax | 72,317 | 0 | 5,670 | 66,647 |
| Total Income Tax | 5,388,942 | 0 | 16,164 | 5,372,779 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 209,927 | 6,984 | 38,244 | 164,700 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 9,074,719 | 6,984 | 64,758 | 9,002,978 |
| Income Tax after Credits | 8,864,792 | 0 | 26,514 | 8,838,278 |
| Total Income Tax | 8,975,907 | 0 | 38,126 | 8,937,781 |
| Number of Tax Returns Represented in the tabulation | 33,606 | 260 | 732 | 32,614 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or over -- 1975

As Percentages of Adjusted Gross Income

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 116.5 | 56.2 | 83.7 | 118.1 |
| AGI PLUS PREFERENCES | 120.8 | 106.1 | 122.2 | 120.9 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 95.8 | 51.3 | 63.5 | 97.2 |
| Investment Interest < Investment Income <u>1/</u> | 4.2 | 48.7 | 36.5 | 2.8 |
| Tax Preferences | 20.8 | 6.1 | 22.2 | 20.9 |
| Excluded Long-Term Capital Gains | 17.3 | 5.3 | 17.2 | 17.4 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 3.5 | 0.8 | 5.0 | 3.5 |
| ADJUSTED GROSS INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Exemptions | 0.7 | 0.6 | 0.5 | 0.7 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 22.9 | 108.5 | 83.5 | 20.2 |
| Charitable Contributions | 7.6 | 11.7 | 16.8 | 7.3 |
| Interest: Total | 5.4 | 68.7 | 45.0 | 3.5 |
| Home Mortgage | 0.4 | 1.0 | 1.3 | 0.4 |
| Invest. Interest < Invest. Income <u>3/</u> | 4.2 | 48.7 | 36.5 | 2.8 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.7 | 19.0 | 7.1 | 0.4 |
| Medical | 0.2 | 0.5 | 0.4 | 0.2 |
| Casualty | 0.2 | 3.4 | 0.7 | 0.1 |
| Tax Expense | 7.0 | 8.6 | 8.4 | 7.0 |
| Miscellaneous Deductions | 2.5 | 15.8 | 12.3 | 2.1 |
| Excess of Exemptions & Deductions over AGI | 0.2 | 15.6 | 2.1 | * |
| Taxable Income | 76.6 | 6.5 | 18.0 | 79.2 |
| Tax at Normal Rates | 46.6 | 3.8 | 9.9 | 48.1 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | * | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 2.6 | 0.2 | 0.3 | 2.7 |
| Saving from Income Averaging | 0.7 | 0.2 | 0.4 | 0.7 |
| Tax Before Credits | 43.0 | 3.4 | 9.2 | 44.5 |
| Tax Credits | 1.1 | 3.4 | 6.4 | 0.9 |
| Foreign Tax Credit | 0.4 | 3.2 | 5.8 | 0.2 |
| Investment Credit | 0.7 | 0.2 | 0.7 | 0.7 |
| All Other Credits <u>6/</u> | * | * | * | * |
| Tax After Credits | 41.9 | 0 | 2.7 | 43.6 |
| Minimum Tax | 0.6 | 0 | 1.5 | 0.6 |
| Total Income Tax | 42.5 | 0 | 4.2 | 44.1 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.7 | 6.0 | 10.0 | 1.4 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 71.6 | 6.0 | 16.9 | 73.9 |
| Income Tax after Credits | 69.9 | 0 | 6.9 | 72.6 |
| Total Income Tax | 70.8 | 0 | 10.0 | 73.4 |
| Number of Tax Returns Represented in the tabulation | 33,606 | 260 | 732 | 32,614 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

| | : All Returns | : Nontaxable Returns | : Nearly Nontaxable Returns | : All Other Taxable Returns |
|---|------------------|-------------------------|-----------------------------------|-----------------------------------|
| INCOME, PER CONCEPT | 17,912,101 | 157,876 | 1,244,343 | 16,509,882 |
| EXPANDED INCOME | 17,269,318 | 95,631 | 1,009,540 | 16,164,146 |
| AGI PLUS PREFERENCES | 17,912,101 | 157,876 | 1,244,343 | 16,509,882 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 13,495,332 | 55,208 | 451,660 | 12,988,464 |
| Investment Interest < Investment Income <u>1/</u> | 642,783 | 62,244 | 234,803 | 345,735 |
| Tax Preferences | 3,788,730 | 41,891 | 566,594 | 3,180,245 |
| Excluded Long-Term Capital Gains | 3,171,700 | 38,764 | 463,354 | 2,669,580 |
| Dividend Exclusion | 6,289 | 50 | 327 | 5,913 |
| Other Tax Preferences <u>2/</u> | 610,742 | 3,077 | 102,912 | 504,753 |
| ADJUSTED GROSS INCOME | 14,149,815 | 123,119 | 685,426 | 13,341,267 |
| Deficits | - 26,442 | - 7,134 | - 7,676 | - 11,631 |
| AGI of Returns with AGI > 0 | 14,123,370 | 115,985 | 677,750 | 13,329,636 |
| Exemptions | 114,493 | 1,045 | 6,272 | 107,178 |
| Standard Deductions | 2,580 | 7 | 54 | 2,520 |
| Itemized Deductions | 3,262,745 | 138,332 | 558,265 | 2,566,148 |
| Charitable Contributions | 1,049,761 | 14,177 | 121,390 | 914,194 |
| Interest: Total | 793,069 | 84,462 | 268,185 | 440,422 |
| Home Mortgage | 67,649 | 1,341 | 9,932 | 56,376 |
| Invest. Interest < Invest. Income <u>3/</u> | 628,038 | 60,777 | 226,089 | 341,173 |
| Invest. Interest > Invest. Income <u>4/</u> | 97,383 | 22,344 | 32,164 | 42,875 |
| Medical | 33,087 | 556 | 3,869 | 28,662 |
| Casualty | 25,526 | 8,121 | 4,151 | 13,254 |
| Tax Expense | 1,002,517 | 11,228 | 70,508 | 920,781 |
| Miscellaneous Deductions | 358,785 | 19,788 | 90,162 | 248,836 |
| Excess of Exemptions & Deductions over AGI | 47,765 | 24,107 | 22,265 | 1,393 |
| Taxable Income | 10,817,759 | 7,844 | 143,100 | 10,666,815 |
| Tax at Normal Rates | 6,450,171 | 4,468 | 70,786 | 6,374,917 |
| Saving from Alternative Tax <u>5/</u> | 32,163 | 12 | 219 | 31,932 |
| Saving from Maximum Tax <u>5/</u> | 337,674 | 180 | 1,078 | 336,416 |
| Saving from Income Averaging | 125,692 | 199 | 4,746 | 120,748 |
| Tax Before Credits | 5,957,059 | 4,076 | 64,741 | 5,888,242 |
| Tax Credits | 160,997 | 4,075 | 37,601 | 119,319 |
| Foreign Tax Credit | 57,658 | 3,763 | 26,222 | 27,674 |
| Investment Credit | 101,621 | 307 | 11,361 | 89,951 |
| All Other Credits <u>6/</u> | 1,718 | 5 | 18 | 1,694 |
| Tax After Credits | 5,796,062 | 0 | 27,140 | 5,768,923 |
| Minimum Tax | 112,677 | 0 | 42,360 | 70,318 |
| Total Income Tax | 5,908,739 | 0 | 69,500 | 5,839,240 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 248,051 | 7,241 | 64,469 | 176,342 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 10,095,744 | 7,241 | 132,697 | 9,955,807 |
| Income Tax after Credits | 9,847,693 | 0 | 68,228 | 9,779,465 |
| Total Income Tax | 10,043,925 | 0 | 152,685 | 9,891,241 |
| Number of Tax Returns Represented in the tabulation | 43,344 | 362 | 2,257 | 40,725 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-6

Income, Deductions, Credits, and Taxes for Tax
with Adjusted Gross Income Plus Preferences of \$200,000 or Over -- 1975

As Percentages of Adjusted Gross Income Plus Preferences

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 96.4 | 60.6 | 81.1 | 97.9 |
| AGI PLUS PREFERENCES | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 75.3 | 35.0 | 36.3 | 78.7 |
| Investment Interest < Investment Income <u>1/</u> | 3.6 | 39.4 | 18.9 | 2.1 |
| Tax Preferences | 21.2 | 26.5 | 45.5 | 19.3 |
| Excluded Long-Term Capital Gains | 17.7 | 24.6 | 37.2 | 16.2 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 3.4 | 2.0 | 8.3 | 3.1 |
| ADJUSTED GROSS INCOME | 79.0 | 78.0 | 55.1 | 80.8 |
| Deficits | - 0.2 | - 4.5 | - 0.6 | - 0.1 |
| AGI of Returns with AGI > 0 | 78.8 | 73.5 | 54.5 | 80.7 |
| Exemptions | 0.6 | 0.7 | 0.5 | 0.6 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 18.2 | 87.6 | 44.9 | 15.5 |
| Charitable Contributions | 5.9 | 9.0 | 9.8 | 5.5 |
| Interest: Total | 4.4 | 53.5 | 21.6 | 2.7 |
| Home Mortgage | 0.4 | 0.8 | 0.8 | 0.3 |
| Invest. Interest < Invest. Income <u>3/</u> | 35 | 38.5 | 18.2 | 2.1 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.5 | 14.2 | 2.6 | 0.3 |
| Medical | 0.2 | 0.4 | 0.3 | 0.2 |
| Casualty | 0.1 | 5.1 | 0.3 | 0.1 |
| Tax Expense | 5.6 | 7.1 | 5.7 | 5.6 |
| Miscellaneous Deductions | 2.0 | 12.5 | 7.2 | 1.5 |
| Excess of Exemptions & Deductions over AGI | 0.3 | 15.3 | 1.8 | * |
| Taxable Income | 60.4 | 5.0 | 11.5 | 64.6 |
| Tax at Normal Rates | 36.0 | 2.8 | 5.7 | 38.6 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | * | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 1.9 | 0.1 | 0.1 | 2.0 |
| Saving from Income Averaging | 0.7 | 0.1 | 0.4 | 0.7 |
| Tax Before Credits | 33.3 | 2.6 | 5.2 | 35.7 |
| Tax Credits | 0.9 | 2.6 | 3.0 | 0.7 |
| Foreign Tax Credit | 0.3 | 2.4 | 2.1 | 0.2 |
| Investment Credit | 0.6 | 0.2 | 0.9 | 0.5 |
| All Other Credits <u>6/</u> | * | * | * | * |
| Tax After Credits | 32.4 | 0 | 2.2 | 34.9 |
| Minimum Tax | 0.6 | 0 | 3.4 | 0.4 |
| Total Income Tax | 33.0 | 0 | 5.6 | 35.4 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.3 | 4.6 | 5.2 | 1.1 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 56.4 | 4.6 | 10.7 | 60.3 |
| Income Tax after Credits | 55.0 | 0 | 5.5 | 59.2 |
| Total Income Tax | 56.1 | 0 | 12.3 | 59.9 |
| Number of Tax Returns Represented in the tabulation | 43,344 | 362 | 2,257 | 40,725 |

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See Uniform footnotes following Table 76-7 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-7

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

| | : | : | : | : |
|---|------------|------------|---------|------------|
| | All | Nontaxable | Nearly | All Other |
| | Returns | Returns | Returns | Taxable |
| | Returns | Returns | Returns | Returns |
| INCOME, PER CONCEPT | 11,788,400 | 47,469 | 170,417 | 11,570,514 |
| EXPANDED INCOME | 14,282,404 | 51,402 | 205,307 | 14,025,695 |
| AGI PLUS PREFERENCES | 14,629,433 | 65,669 | 247,897 | 14,315,866 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 11,788,400 | 47,469 | 170,417 | 11,570,514 |
| Investment Interest < Investment Income <u>1/</u> | 338,213 | 13,853 | 38,294 | 286,066 |
| Tax Preferences | 2,502,820 | 4,349 | 39,184 | 2,459,287 |
| Excluded Long-Term Capital Gains | 2,073,083 | 3,803 | 29,256 | 2,040,023 |
| Dividend Exclusion | 4,602 | 16 | 52 | 4,533 |
| Other Tax Preferences <u>2/</u> | 425,135 | 530 | 9,875 | 414,729 |
| ADJUSTED GROSS INCOME | 12,126,613 | 61,321 | 208,712 | 11,856,580 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 12,126,613 | 61,321 | 208,712 | 11,856,580 |
| Exemptions | 83,477 | 326 | 919 | 82,234 |
| Standard Deductions | 1,484 | 7 | 13 | 1,465 |
| Itemized Deductions | 2,582,521 | 63,325 | 162,271 | 2,356,925 |
| Charitable Contributions | 931,624 | 10,209 | 43,090 | 878,324 |
| Interest: Total | 461,584 | 28,631 | 61,393 | 371,560 |
| Home Mortgage | 49,360 | 602 | 3,644 | 45,113 |
| Invest. Interest < Invest. Income <u>3/</u> | 338,213 | 13,853 | 38,294 | 286,066 |
| Invest. Interest > Invest. Income <u>4/</u> | 74,011 | 14,176 | 19,453 | 40,382 |
| Medical | 23,644 | 387 | 813 | 22,444 |
| Casualty | 17,690 | 3,585 | 2,610 | 11,495 |
| Tax Expense | 854,672 | 6,762 | 20,523 | 827,388 |
| Miscellaneous Deductions | 293,306 | 13,750 | 33,844 | 245,711 |
| Excess of Exemptions & Deductions over AGI | 16,545 | 9,322 | 3,253 | 3,970 |
| Taxable Income | 9,475,676 | 6,986 | 48,765 | 9,419,927 |
| Tax at Normal Rates | 5,780,480 | 4,228 | 28,842 | 5,747,410 |
| Saving from Alternative Tax <u>5/</u> | 24,373 | 12 | 88 | 24,274 |
| Saving from Maximum Tax <u>5/</u> | 330,005 | 180 | 934 | 328,891 |
| Saving from Income Averaging | 84,827 | 198 | 734 | 83,895 |
| Tax Before Credits | 5,343,035 | 3,838 | 27,086 | 5,312,111 |
| Tax Credits | 137,006 | 3,837 | 22,300 | 110,869 |
| Foreign Tax Credit | 52,906 | 3,676 | 20,844 | 28,387 |
| Investment Credit | 82,816 | 157 | 1,454 | 81,205 |
| All Other Credits <u>6/</u> | 1,284 | 4 | 2 | 1,277 |
| Tax After Credits | 5,206,027 | 0 | 4,787 | 5,201,241 |
| Minimum Tax | 65,210 | 0 | 2,930 | 62,279 |
| Total Income Tax | 5,271,237 | 0 | 7,717 | 5,263,520 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 201,786 | 6,415 | 33,696 | 161,675 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 8,842,379 | 6,415 | 46,010 | 8,789,954 |
| Income Tax after Credits | 8,640,593 | 0 | 12,314 | 8,628,279 |
| Total Income Tax | 8,737,761 | 0 | 18,121 | 8,719,640 |
| Number of Tax Returns Represented in the tabulation | 31,391 | 126 | 345 | 30,920 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1975

As Percentages of Adjusted Gross Income Minus Investment Interest

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|---|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 121.2 | 108.3 | 120.5 | 121.2 |
| AGI PLUS PREFERENCES | 124.1 | 138.3 | 145.5 | 123.7 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Investment Interest < Investment Income <u>1/</u> | 2.9 | 29.2 | 22.5 | 2.5 |
| Tax Preferences | 21.2 | 9.2 | 23.0 | 21.2 |
| Excluded Long-Term Capital Gains | 17.6 | 8.0 | 17.2 | 17.6 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 3.6 | 1.1 | 5.8 | 3.6 |
| ADJUSTED GROSS INCOME | 102.9 | 129.2 | 122.5 | 102.5 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 102.9 | 129.2 | 122.5 | 102.5 |
| Exemptions | 0.7 | 0.7 | 0.5 | 0.7 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 21.9 | 133.4 | 95.2 | 20.4 |
| Charitable Contributions | 7.9 | 21.5 | 25.3 | 7.6 |
| Interest: Total | 3.9 | 60.3 | 36.0 | 3.2 |
| Home Mortgage | 0.4 | 1.3 | 2.1 | 0.4 |
| Invest. Interest < Invest. Income <u>3/</u> | 2.9 | 29.2 | 22.5 | 2.5 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.6 | 29.9 | 11.4 | 0.4 |
| Medical | 0.2 | 0.8 | 0.5 | 0.2 |
| Casualty | 0.2 | 7.6 | 1.5 | 0.1 |
| Tax Expense | 7.2 | 14.2 | 12.0 | 7.2 |
| Miscellaneous Deductions | 2.5 | 29.0 | 19.9 | 2.1 |
| Excess of Exemptions & Deductions over AGI | 0.1 | 19.6 | 1.9 | * |
| Taxable Income | 80.4 | 14.7 | 28.6 | 81.4 |
| Tax at Normal Rates | 49.0 | 8.9 | 16.9 | 49.7 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | * | 0.1 | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 2.8 | 0.4 | 0.6 | 2.8 |
| Saving from Income Averaging | 0.7 | 0.4 | 0.4 | 0.7 |
| Tax Before Credits | 45.3 | 8.1 | 15.9 | 45.9 |
| Tax Credits | 1.2 | 8.1 | 13.1 | 1.0 |
| Foreign Tax Credit | 0.4 | 7.7 | 12.2 | 0.2 |
| Investment Credit | 0.7 | 0.3 | 0.8 | 0.7 |
| All Other Credits <u>6/</u> | * | * | * | * |
| Tax After Credits | 44.2 | 0 | 2.8 | 45.0 |
| Minimum Tax | 0.6 | 0 | 1.7 | 0.5 |
| Total Income Tax | 44.7 | 0 | 4.5 | 45.5 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.2 | 13.5 | 19.8 | 1.4 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 75.0 | 13.5 | 27.0 | 76.0 |
| Income Tax after Credits | 73.3 | 0 | 7.2 | 74.6 |
| Total Income Tax | 74.1 | 0 | 10.6 | 75.4 |

Number of Tax Returns Represented 31,391 126 345 30,920
in the tabulation

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-9

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
-- All Returns, 1975

| | : | : | : | : | : | : |
|---|------------|------------|---|--|---------|-----------|
| | : | Less Than | : | \$50,000 to | : | \$200,000 |
| | : | \$50,000 | : | \$100,000 | : | \$200,000 |
| | : | | : | | : | and over |
| | : | | : | | : | |
| <u>Expanded Income</u> | | | | <u>Adjusted Gross Income</u> | | |
| Total | 82,229,182 | 81,262,674 | | 780,470 | 152,432 | 33,606 |
| Less than \$ 50,000 | 81,215,630 | 81,197,893 | | 17,524 | 180 | 33 |
| \$ 50,000 to \$100,000 | 807,399 | 63,103 | | 738,376 | 5,825 | 95 |
| \$100,000 to \$200,000 | 165,269 | 1,307 | | 24,156 | 138,670 | 1,136 |
| \$200,000 and over | 40,884 | 371 | | 414 | 7,757 | 32,342 |
| <u>Expanded Income</u> | | | | <u>Adjusted Gross Income plus Preferences</u> | | |
| Total | 82,229,182 | 81,190,697 | | 821,253 | 173,888 | 43,344 |
| Less than \$ 50,000 | 81,215,630 | 81,190,697 | | 24,477 | 418 | 38 |
| \$ 50,000 to \$100,000 | 807,399 | | | 796,776 | 10,481 | 142 |
| \$100,000 to \$200,000 | 165,269 | | | | 162,989 | 2,280 |
| \$200,000 and over | 40,884 | | | | | 40,884 |
| <u>Expanded Income</u> | | | | <u>Adjusted Gross Income minus Investment Interest</u> | | |
| Total | 82,229,182 | 81,289,752 | | 762,709 | 145,330 | 31,391 |
| Less than \$ 50,000 | 81,215,630 | 81,215,630 | | | | |
| \$ 50,000 to \$100,000 | 807,399 | 71,746 | | 735,653 | | |
| \$100,000 to \$200,000 | 165,269 | 1,890 | | 26,480 | 136,899 | |
| \$200,000 and over | 40,884 | 486 | | 576 | 8,431 | 31,391 |
| <u>Adjusted Gross Income</u> | | | | <u>Adjusted Gross Income plus Preferences</u> | | |
| Total | 82,229,182 | 81,190,697 | | 821,253 | 173,888 | 43,344 |
| Less than \$ 50,000 | 81,262,674 | 81,190,697 | | 70,022 | 1,569 | 386 |
| \$ 50,000 to \$100,000 | 780,470 | | | 751,231 | 28,747 | 492 |
| \$100,000 to \$200,000 | 152,432 | | | | 143,572 | 8,860 |
| \$200,000 and over | 33,606 | | | | | 33,606 |
| <u>Adjusted Gross Income</u> | | | | <u>Adjusted Gross Income minus Investment Interest</u> | | |
| Total | 82,229,182 | 81,289,752 | | 762,709 | 145,330 | 31,391 |
| Less than \$ 50,000 | 81,262,674 | 81,262,674 | | | | |
| \$ 50,000 to \$100,000 | 780,470 | 26,582 | | 753,888 | | |
| \$100,000 to \$200,000 | 152,432 | 410 | | 8,678 | 143,344 | |
| \$200,000 and over | 33,606 | 86 | | 143 | 1,986 | 31,391 |
| <u>Adjusted Gross Income plus Preferences</u> | | | | <u>Adjusted Gross Income minus Investment Interest</u> | | |
| Total | 82,229,182 | 81,289,752 | | 762,709 | 145,330 | 31,391 |
| Less than \$ 50,000 | 81,190,697 | 81,190,697 | | | | |
| \$ 50,000 to \$100,000 | 821,253 | 94,959 | | 726,294 | | |
| \$100,000 to \$200,000 | 173,888 | 3,412 | | 35,442 | 135,034 | |
| \$200,000 and over | 43,344 | 684 | | 973 | 10,296 | 31,391 |

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Source: 1975 Internal Revenue Service Tax Model.

Table 75-10

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
 -- Nontaxable Returns, 1975

| | : | : | : | : | : | : |
|---|---|------------|-------------|--------------|-----------|---|
| | : | Less Than | \$50,000 to | \$100,000 to | \$200,000 | |
| | Total | \$50,000 | \$100,000 | \$200,000 | and over | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | -----Adjusted Gross Income----- | | | | | |
| Total | 20,822,251 | 20,816,533 | 4,749 | 709 | 260 | |
| Less than \$ 50,000 | 20,816,696 | 20,815,601 | 958 | 115 | 22 | |
| \$ 50,000 to \$100,000 | 4,654 | 779 | 3,617 | 219 | 39 | |
| \$100,000 to \$200,000 | 686 | 107 | 152 | 366 | 61 | |
| \$200,000 and over | 215 | 46 | 22 | 9 | 138 | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | -----Adjusted Gross Income plus Preferences----- | | | | | |
| Total | 20,822,251 | 20,813,859 | 6,607 | 1,423 | 362 | |
| Less than \$ 50,000 | 20,816,696 | 20,813,859 | 2,467 | 343 | 27 | |
| \$ 50,000 to \$100,000 | 4,654 | | 4,140 | 471 | 43 | |
| \$100,000 to \$200,000 | 686 | | | 609 | 77 | |
| \$200,000 and over | 215 | | | | 215 | |
| <hr/> | | | | | | |
| <u>Expanded Income</u> | -----Adjusted Gross Income minus Investment Interest----- | | | | | |
| Total | 20,822,251 | 20,817,839 | 3,879 | 407 | 126 | |
| Less than \$ 50,000 | 20,816,696 | 20,816,696 | | | | |
| \$ 50,000 to \$100,000 | 4,654 | 876 | 3,778 | | | |
| \$100,000 to \$200,000 | 686 | 212 | 87 | 387 | | |
| \$200,000 and over | 215 | 55 | 14 | 20 | 126 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income</u> | -----Adjusted Gross Income plus Preferences----- | | | | | |
| Total | 20,822,251 | 20,813,859 | 6,607 | 1,423 | 362 | |
| Less than \$ 50,000 | 20,816,533 | 20,813,859 | 2,498 | 123 | 53 | |
| \$ 50,000 to \$100,000 | 4,749 | | 4,109 | 618 | 22 | |
| \$100,000 to \$200,000 | 709 | | | 682 | 27 | |
| \$200,000 and over | 260 | | | | 260 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income</u> | -----Adjusted Gross Income minus Investment Interest----- | | | | | |
| Total | 20,822,251 | 20,817,839 | 3,879 | 407 | 126 | |
| Less than \$ 50,000 | 20,816,533 | 20,816,533 | | | | |
| \$ 50,000 to \$100,000 | 4,749 | 1,135 | 3,614 | | | |
| \$100,000 to \$200,000 | 709 | 141 | 229 | 339 | | |
| \$200,000 and over | 260 | 30 | 36 | 68 | 126 | |
| <hr/> | | | | | | |
| <u>Adjusted Gross Income</u> <u>plus Preferences</u> | -----Adjusted Gross Income minus Investment Interest----- | | | | | |
| Total | 20,822,251 | 20,817,839 | 3,879 | 407 | 126 | |
| Less than \$ 50,000 | 20,813,859 | 20,813,859 | | | | |
| \$ 50,000 to \$100,000 | 6,607 | 3,279 | 3,328 | | | |
| \$100,000 to \$200,000 | 1,423 | 596 | 501 | 326 | | |
| \$200,000 and over | 362 | 105 | 50 | 81 | 126 | |

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Source: 1975 Internal Revenue Service Tax Model.

Appendix C

1974 Data

The eight tables in this appendix contain aggregate data and percentage distributions of the income, preference, deduction, credit, and tax items from 1974 returns. They are the counterparts to Tables 76-1 through 76-8 for 1976 and Tables 75-1 through 75-8 for 1975. They are similar to the Tables 15 through 22 in last year's high-income report, with two major exceptions. The first change is that the nearly nontaxable group has been redefined to be consistent with the definition for 1975 and 1976 used throughout this report. Nearly nontaxable returns are those returns which show some tax liability but which have a ratio of taxable income to income of less than 20 percent. ^{1/} The redefinition of nearly nontaxable returns also required a revision of the data for all other taxable returns. Again consistent with the data for 1975 and 1976, the second change is that in the percentage tables the income concept used as the classifier is considered to be 100 percent; in 1974-1975 report, expanded income was 100 percent on all tables, regardless of the classifier.

The data in this appendix, along with all other 1974 data in this report and all 1974 data in last year's high-income report, are derived from the 1974 Internal Revenue Service tax model. It has just been discovered that there is a systematic error in the 1974 IRS tax model and that all of the 1974 data in both last year's and this year's high-income report are subject to revision. The weights assigned to some of the specific tax returns in the model were incorrect. As a result, some of the population estimates from the 1974 IRS tax model are too large. The incorrectly weighted tax model indicates that there are 36,015 returns with adjusted gross income of \$200,000 or more as compared to 31,132 in the correctly weighted 1974

^{1/} The denominator in the taxable income to income ratio is whichever income concept is used for selection and classification for that particular table.

Statistics of Income file from which the tax model itself was derived. This represents a 16 percent overstatement in the number of high-income returns. However, since the number of nontaxable returns appears to be correct, only the numbers of nearly nontaxables and of all other taxables are inflated. It is believed that the overestimates of the numbers of high-income returns for the three other income concepts are of the same order of magnitude.

While these errors are disturbing, we do not believe that they make the 1974 data published so far useless. The dollar aggregates of income, deductions, credits, and taxes attributable to these high-income returns are incorrect, but the distributions are correct. Thus, the shares representing the relative importance of each deduction, etc., which are shown on the even numbered tables are essentially correct.

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Table 74-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1974

Aggregate Data
(\$ in thousands)

| | : All Returns | : Nontaxable Returns | : Nearly Nontaxable Returns | : All Other Taxable Returns |
|---|---------------------|----------------------------|--------------------------------------|--------------------------------------|
| INCOME, PER CONCEPT | 17,087,358 | 58,190 | 697,474 | 16,331,694 |
| EXPANDED INCOME | 17,087,358 | 58,190 | 697,474 | 16,331,694 |
| AGI PLUS PREFERENCES | 17,603,969 | 78,076 | 824,151 | 16,701,742 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 13,439,765 | 33,673 | 285,814 | 13,120,278 |
| Investment Interest < Investment Income <u>1/</u> | 516,610 | 19,887 | 126,677 | 370,046 |
| Tax Preferences | 3,657,128 | 24,754 | 416,207 | 3,216,167 |
| Excluded Long-Term Capital Gains | 3,381,524 | 24,732 | 338,785 | 3,018,007 |
| Dividend Exclusion | 6,022 | 21 | 179 | 5,822 |
| Other Tax Preferences <u>2/</u> | 269,583 | 0 | 77,245 | 192,338 |
| ADJUSTED GROSS INCOME | 13,968,792 | 56,302 | 415,584 | 13,496,906 |
| Deficits | - 21,950 | -2,978 | - 7,643 | - 11,329 |
| AGI of Returns with AGI > 0 | 13,946,840 | 53,323 | 407,941 | 13,485,576 |
| Exemptions | 113,375 | 724 | 3,569 | 109,082 |
| Standard Deductions | 2,255 | 11 | 41 | 2,203 |
| Itemized Deductions | 2,907,140 | 61,799 | 344,380 | 2,500,961 |
| Charitable Contributions | 970,901 | 8,333 | 81,222 | 881,346 |
| Interest: Total | 636,691 | 31,715 | 148,395 | 456,581 |
| Home Mortgage | 41,366 | 182 | 1,669 | 39,515 |
| Invest. Interest < Invest. Income <u>3/</u> | 507,077 | 19,651 | 122,129 | 365,297 |
| Invest. Interest > Invest. Income <u>4/</u> | 88,250 | 11,883 | 24,598 | 51,769 |
| Medical | 29,180 | 141 | 2,560 | 26,479 |
| Casualty | 18,180 | 2,721 | 3,601 | 11,858 |
| Tax Expenses | 919,220 | 5,583 | 46,906 | 866,731 |
| Miscellaneous Deductions | 332,967 | 13,306 | 61,693 | 257,968 |
| Excess of Exemptions & Deductions over AGI | 25,639 | 10,259 | 11,170 | 4,210 |
| Taxable Income | 10,972,110 | 4,075 | 78,856 | 10,889,179 |
| Tax at Normal Rates | 6,567,115 | 2,248 | 39,816 | 6,525,051 |
| Saving from Alternative Tax <u>5/</u> | 40,141 | 0 | 42 | 40,099 |
| Saving from Maximum Tax <u>5/</u> | 290,766 | 66 | 978 | 289,722 |
| Saving from Income Averaging | 203,136 | 90 | 2,790 | 200,256 |
| Tax Before Credits | 6,033,169 | 2,094 | 36,007 | 5,995,068 |
| Tax Credits | 111,218 | 2,094 | 22,092 | 87,032 |
| Foreign Tax Credit | 47,933 | 1,916 | 16,400 | 29,617 |
| Investment Credit | 62,650 | 178 | 5,688 | 56,784 |
| All Other Credits <u>6/</u> | 635 | 0 | 4 | 631 |
| Tax After Credits | 5,921,951 | 0 | 13,916 | 5,908,035 |
| Minimum Tax | 114,594 | 0 | 32,705 | 81,889 |
| Total Income Tax | 6,036,542 | 0 | 46,616 | 5,989,926 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 170,539 | 3,854 | 37,865 | 128,820 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 10,196,555 | 3,854 | 72,687 | 10,120,014 |
| Income Tax after Credits | 10,026,016 | 0 | 34,822 | 9,991,194 |
| Total Income Tax | 10,220,917 | 0 | 96,990 | 10,123,927 |
| Number of Tax Returns Represented in the tabulation | 42,687 | 167 | 1,275 | 41,245 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1974

As Percentages of Expanded Income

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI PLUS PREFERENCES | 103.0 | 134.2 | 118.2 | 102.3 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 78.7 | 57.9 | 41.0 | 80.3 |
| Investment Interest < Investment Income <u>1/</u> | 3.0 | 34.2 | 18.2 | 2.3 |
| Tax Preferences | 21.4 | 42.5 | 59.7 | 19.7 |
| Excluded Long-Term Capital Gains | 19.8 | 42.5 | 48.6 | 18.5 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 1.6 | 0 | 11.1 | 1.2 |
| ADJUSTED GROSS INCOME | 81.7 | 96.8 | 59.6 | 82.6 |
| Deficits | - 0.1 | - 5.1 | - 1.1 | - 0.1 |
| AGI of Returns with AGI > 0 | 81.6 | 91.6 | 58.5 | 82.6 |
| Exemptions | 0.7 | 1.2 | 0.5 | 0.7 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 17.0 | 106.2 | 49.4 | 15.3 |
| Charitable Contributions | 5.7 | 14.3 | 11.6 | 5.4 |
| Interest: Total | 3.7 | 54.5 | 21.3 | 2.8 |
| Home Mortgage | 0.2 | 0.3 | 0.2 | 0.2 |
| Invest. Interest < Invest. Income <u>3/</u> | 3.0 | 33.8 | 17.5 | 2.2 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.5 | 20.4 | 3.5 | 0.3 |
| Medical | 0.2 | 0.2 | 0.4 | 0.2 |
| Casualty | 0.1 | 4.7 | 0.5 | 0.1 |
| Tax Expenses | 5.4 | 9.6 | 6.7 | 5.3 |
| Miscellaneous Deductions | 1.9 | 22.9 | 8.8 | 1.6 |
| Excess of Exemptions & Deductions over AGI | 0.2 | 17.6 | 1.6 | * |
| Taxable Income | 64.2 | 7.0 | 11.3 | 66.7 |
| Tax at Normal Rates | 38.4 | 3.9 | 5.7 | 40.0 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 1.7 | 0.1 | 0.1 | 1.8 |
| Saving from Income Averaging | 1.2 | 0.2 | 0.4 | 1.2 |
| Tax Before Credits | 35.3 | 3.6 | 5.2 | 36.7 |
| Tax Credits | 0.7 | 3.6 | 3.2 | 0.5 |
| Foreign Tax Credit | 0.3 | 3.3 | 2.4 | 0.2 |
| Investment Credit | 0.4 | 0.3 | 0.8 | 0.4 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 34.7 | 0 | 2.0 | 36.2 |
| Minimum Tax | 0.7 | 0 | 4.7 | 0.5 |
| Total Income Tax | 35.4 | 0 | 6.7 | 36.7 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.0 | 6.6 | 5.4 | 0.8 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 59.7 | 6.6 | 10.4 | 62.0 |
| Income Tax after Credits | 58.7 | 0 | 5.0 | 61.2 |
| Total Income Tax | 59.8 | 0 | 13.9 | 62.0 |
| Number of Tax Returns Represented in the tabulation | 42,687 | 167 | 1,275 | 41,245 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-3

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1974Aggregate Data
(\$ in thousands)

| | : All Returns | : Nontaxable Returns | : Nearly Nontaxable Returns | : All Other Taxable Returns |
|---|---------------------|----------------------------|--------------------------------------|--------------------------------------|
| INCOME, PER CONCEPT | 13,181,598 | 109,808 | 412,479 | 12,659,311 |
| EXPANDED INCOME | 15,097,684 | 45,979 | 313,614 | 14,738,091 |
| AGI PLUS PREFERENCES | 15,741,891 | 114,595 | 498,492 | 15,128,804 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 12,551,430 | 42,148 | 235,265 | 12,274,017 |
| Investment Interest < Investment Income <u>1/</u> | 630,168 | 67,660 | 177,215 | 385,293 |
| Tax Preferences | 2,560,293 | 4,787 | 86,012 | 2,469,494 |
| Excluded Long-Term Capital Gains | 2,404,443 | 4,752 | 74,777 | 2,324,914 |
| Dividend Exclusion | 5,242 | 36 | 134 | 5,072 |
| Other Tax Preferences <u>2/</u> | 150,609 | 0 | 11,103 | 139,506 |
| ADJUSTED GROSS INCOME | 13,181,598 | 109,808 | 412,479 | 12,659,311 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 13,181,598 | 109,808 | 412,479 | 12,659,311 |
| Exemptions | 96,396 | 972 | 2,538 | 92,886 |
| Standard Deductions | 1,286 | 4 | 0 | 1,282 |
| Itemized Deductions | 2,938,358 | 127,958 | 362,875 | 2,447,525 |
| Charitable Contributions | 934,795 | 11,254 | 64,331 | 859,210 |
| Interest: Total | 781,040 | 88,920 | 213,599 | 478,521 |
| Home Mortgage | 35,140 | 317 | 1,281 | 33,542 |
| Invest. Interest < Invest. Income <u>3/</u> | 630,168 | 67,660 | 177,215 | 385,293 |
| Invest. Interest > Invest. Income <u>4/</u> | 115,734 | 20,944 | 35,104 | 59,686 |
| Medical | 27,042 | 401 | 1,912 | 24,729 |
| Casualty | 17,743 | 2,785 | 3,391 | 11,567 |
| Tax Expense | 860,934 | 8,814 | 33,225 | 818,895 |
| Miscellaneous Deductions | 316,802 | 15,782 | 46,415 | 254,605 |
| Excess of Exemptions & Deductions over AGI | 36,330 | 23,013 | 11,975 | 1,342 |
| Taxable Income | 10,181,889 | 3,887 | 59,040 | 10,118,962 |
| Tax at Normal Rates | 6,170,348 | 2,208 | 30,271 | 6,137,869 |
| Saving from Alternative Tax <u>5/</u> | 35,243 | 0 | 67 | 35,176 |
| Saving from Maximum Tax <u>5/</u> | 291,366 | 66 | 986 | 290,314 |
| Saving from Income Averaging | 155,228 | 93 | 678 | 154,457 |
| Tax Before Credits | 5,688,566 | 2,051 | 28,539 | 5,657,976 |
| Tax Credits | 101,942 | 2,051 | 17,852 | 82,039 |
| Foreign Tax Credit | 45,837 | 1,965 | 15,815 | 28,057 |
| Investment Credit | 55,414 | 85 | 1,949 | 53,380 |
| All Other Credits <u>6/</u> | 692 | 0 | 90 | 602 |
| Tax After Credits | 5,586,624 | 0 | 10,688 | 5,575,936 |
| Minimum Tax | 70,710 | 0 | 5,828 | 64,882 |
| Total Income Tax | 5,657,334 | 0 | 16,516 | 5,640,818 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 152,181 | 3,659 | 28,490 | 120,032 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 9,488,324 | 3,659 | 56,299 | 9,428,366 |
| Income Tax after Credits | 9,336,143 | 0 | 27,809 | 9,308,334 |
| Total Income Tax | 9,444,781 | 0 | 40,107 | 9,404,674 |
| Number of Tax Returns Represented in the tabulation | 36,015 | 244 | 896 | 34,875 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1974

As Percentages of Adjusted Gross Income

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 114.5 | 41.9 | 76.0 | 116.4 |
| AGI PLUS PREFERENCES | 119.4 | 104.4 | 120.8 | 119.5 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 95.2 | 38.4 | 57.0 | 97.0 |
| Investment Interest < Investment Income <u>1/</u> | 4.8 | 61.6 | 43.0 | 3.0 |
| Tax Preferences | 19.4 | 4.4 | 20.8 | 19.5 |
| Excluded Long-Term Capital Gains | 18.2 | 4.3 | 18.1 | 18.4 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 1.1 | 0 | 2.7 | 1.1 |
| ADJUSTED GROSS INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Exemptions | 0.7 | 0.9 | 0.6 | 0.7 |
| Standard Deductions | * | * | 0 | * |
| Itemized Deductions | 22.3 | 116.5 | 88.0 | 19.3 |
| Charitable Contributions | 7.1 | 10.2 | 15.6 | 6.8 |
| Interest: Total | 5.9 | 81.0 | 51.8 | 3.8 |
| Home Mortgage | 0.3 | 0.3 | 0.3 | 0.3 |
| Invest. Interest < Invest. Income <u>3/</u> | 4.8 | 61.6 | 43.0 | 3.0 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.9 | 19.1 | 8.5 | 0.5 |
| Medical | 0.2 | 0.4 | 0.5 | 0.2 |
| Casualty | 0.1 | 2.5 | 0.8 | 0.1 |
| Tax Expense | 6.5 | 8.0 | 8.0 | 6.5 |
| Miscellaneous Deductions | 2.4 | 14.4 | 11.2 | 2.0 |
| Excess of Exemptions & Deductions over AGI | 0.3 | 21.0 | 2.9 | * |
| Taxable Income | 77.2 | 3.5 | 14.3 | 79.9 |
| Tax at Normal Rates | 46.8 | 2.0 | 7.3 | 48.5 |
| Saving from Alternative Tax <u>5/</u> | 0.3 | 0 | * | 0.3 |
| Saving from Maximum Tax <u>5/</u> | 2.2 | 0.1 | 0.2 | 2.3 |
| Saving from Income Averaging | 1.2 | 0.1 | 0.2 | 1.2 |
| Tax Before Credits | 43.2 | 1.9 | 6.9 | 44.7 |
| Tax Credits | 0.8 | 1.9 | 4.3 | 0.6 |
| Foreign Tax Credit | 0.4 | 1.8 | 3.8 | 0.2 |
| Investment Credit | 0.4 | 0.1 | 0.5 | 0.4 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 42.4 | 0 | 2.6 | 44.0 |
| Minimum Tax | 0.5 | 0 | 1.4 | 0.5 |
| Total Income Tax | 42.9 | 0 | 4.0 | 44.6 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.2 | 3.3 | 6.9 | 1.0 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 72.0 | 3.5 | 13.6 | 74.5 |
| Income Tax after Credits | 70.8 | 0 | 6.7 | 73.5 |
| Total Income Tax | 71.6 | 0 | 9.7 | 74.3 |
| Number of Tax Returns Represented in the tabulation | 36,015 | 244 | 896 | 34,875 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1974

Aggregate Data
(\$ in thousands)

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|---|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 18,335,322 | 148,012 | 1,168,928 | 17,018,382 |
| EXPANDED INCOME | 17,572,387 | 70,995 | 893,327 | 16,608,065 |
| AGI PLUS PREFERENCES | 18,335,322 | 148,012 | 1,168,928 | 17,018,382 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 13,839,140 | 43,463 | 386,851 | 13,408,826 |
| Investment Interest < Investment Income <u>1/</u> | 762,934 | 77,018 | 275,599 | 410,317 |
| Tax Preferences | 3,753,498 | 29,377 | 519,373 | 3,204,748 |
| Excluded Long-Term Capital Gains | 3,469,828 | 29,329 | 429,079 | 3,011,420 |
| Dividend Exclusion | 6,494 | 49 | 329 | 6,116 |
| Other Tax Preferences <u>2/</u> | 277,177 | 0 | 89,965 | 187,212 |
| ADJUSTED GROSS INCOME | 14,603,775 | 121,613 | 657,198 | 13,824,964 |
| Deficits | - 21,950 | - 2,978 | - 7,643 | - 11,329 |
| AGI of Returns with AGI > 0 | 14,581,823 | 118,635 | 649,553 | 13,813,635 |
| Exemptions | 122,073 | 1,253 | 6,484 | 114,336 |
| Standard Deductions | 2,255 | 11 | 41 | 2,203 |
| Itemized Deductions | 3,294,290 | 144,638 | 563,150 | 2,586,502 |
| Charitable Contributions | 1,006,520 | 12,415 | 105,104 | 889,001 |
| Interest: Total | 918,086 | 101,574 | 309,592 | 506,920 |
| Home Mortgage | 45,561 | 450 | 3,137 | 41,974 |
| Invest. Interest < Invest. Income <u>3/</u> | 742,682 | 75,172 | 262,703 | 404,807 |
| Invest. Interest > Invest. Income <u>4/</u> | 129,842 | 25,951 | 43,752 | 60,139 |
| Medical | 30,960 | 422 | 3,395 | 27,143 |
| Casualty | 19,460 | 2,785 | 4,367 | 12,308 |
| Tax Expense | 963,294 | 10,126 | 65,463 | 887,705 |
| Miscellaneous Deductions | 355,971 | 17,315 | 75,232 | 263,424 |
| Excess of Exemptions & Deductions over AGI | 55,380 | 28,768 | 24,666 | 1,946 |
| Taxable Income | 11,240,983 | 4,528 | 112,274 | 11,124,181 |
| Tax at Normal Rates | 6,696,412 | 2,396 | 52,638 | 6,641,378 |
| Saving from Alternative Tax <u>5/</u> | 41,184 | 0 | 74 | 41,110 |
| Saving from Maximum Tax <u>5/</u> | 294,535 | 66 | 986 | 293,483 |
| Saving from Income Averaging | 206,673 | 93 | 3,769 | 202,811 |
| Tax Before Credits | 6,154,104 | 2,238 | 47,809 | 6,104,057 |
| Tax Credits | 114,757 | 2,238 | 24,154 | 88,365 |
| Foreign Tax Credit | 49,225 | 1,970 | 17,138 | 30,117 |
| Investment Credit | 64,804 | 268 | 6,925 | 57,611 |
| All Other Credits <u>6/</u> | 729 | 0 | 92 | 637 |
| Tax After Credits | 6,039,347 | 0 | 23,653 | 6,015,694 |
| Minimum Tax | 117,372 | 0 | 39,404 | 77,968 |
| Total Income Tax | 6,156,719 | 0 | 63,057 | 6,093,662 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 177,590 | 4,300 | 42,425 | 130,865 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 10,452,087 | 4,300 | 104,213 | 10,343,574 |
| Income Tax after Credits | 10,274,497 | 0 | 61,788 | 10,212,709 |
| Total Income Tax | 10,477,920 | 0 | 140,452 | 10,337,467 |
| Number of Tax Returns Represented in the tabulation | 45,704 | 355 | 2,285 | 43,064 |

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See Uniform footnotes following Table 76-8 in Appendix A

Source: 1974 Internal Revenue Service tax model.

Table 74-6

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1974

As Percentages of Adjusted Gross Income Plus Preferences

| | : : All : Returns | : : Nontaxable : Returns | : : Nearly : Nontaxable : Returns | : : All Other : Taxable : Returns |
|--|-------------------------|--------------------------------|--|--|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 95.8 | 48.0 | 76.4 | 97.6 |
| AGI PLUS PREFERENCES | 100.0 | 100.0 | 100.0 | 100.0 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 75.5 | 29.4 | 33.1 | 78.8 |
| Investment Interest < Investment Income <u>1/</u> | 4.2 | 52.0 | 23.6 | 2.4 |
| Tax Preferences | 20.5 | 19.8 | 44.4 | 18.8 |
| Excluded Long-Term Capital Gains | 18.9 | 19.8 | 36.7 | 17.7 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 1.5 | 0 | 7.7 | 1.1 |
| ADJUSTED GROSS INCOME | 79.6 | 82.2 | 56.2 | 81.2 |
| Deficits | - 0.1 | - 2.0 | - 0.6 | - 0.1 |
| AGI of Returns with AGI > 0 | 79.5 | 80.2 | 55.6 | 81.2 |
| Exemptions | 0.7 | 0.8 | 0.6 | 0.7 |
| Standard Deductions | * | * | * | * |
| Itemized Deductions | 18.0 | 97.7 | 48.2 | 15.2 |
| Charitable Contributions | 5.5 | 8.4 | 9.0 | 5.2 |
| Interest: Total | 5.0 | 68.6 | 26.5 | 3.0 |
| Home Mortgage | 0.2 | 0.3 | 0.3 | 0.2 |
| Invest. Interest < Invest. Income <u>3/</u> | 4.0 | 50.8 | 22.5 | 2.4 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.7 | 17.5 | 3.7 | 0.4 |
| Medical | 0.2 | 0.3 | 0.3 | 0.2 |
| Casualty | 0.1 | 1.9 | 0.4 | 0.1 |
| Tax Expense | 5.2 | 6.8 | 5.6 | 5.2 |
| Miscellaneous Deductions | 1.9 | 11.7 | 6.4 | 1.6 |
| Excess of Exemptions & Deductions over AGI | 0.3 | 19.4 | 2.1 | * |
| Taxable Income | 61.3 | 3.1 | 9.6 | 65.4 |
| Tax at Normal Rates | 36.5 | 1.6 | 4.5 | 39.0 |
| Saving from Alternative Tax <u>5/</u> | 0.2 | 0 | * | 0.2 |
| Saving from Maximum Tax <u>5/</u> | 1.6 | * | 0.1 | 1.7 |
| Saving from Income Averaging | 1.1 | 0.1 | 0.3 | 1.2 |
| Tax Before Credits | 33.6 | 1.5 | 4.1 | 35.9 |
| Tax Credits | 0.6 | 1.5 | 2.1 | 0.5 |
| Foreign Tax Credit | 0.3 | 1.3 | 1.5 | 0.2 |
| Investment Credit | 0.4 | 0.2 | 0.6 | 0.3 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 32.9 | 0 | 2.0 | 35.4 |
| Minimum Tax | 0.6 | 0 | 3.4 | 0.5 |
| Total Income Tax | 33.6 | 0 | 5.4 | 35.8 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.0 | 2.9 | 3.6 | 0.8 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 57.0 | 2.9 | 8.9 | 60.8 |
| Income Tax after Credits | 55.9 | 0 | 5.3 | 60.0 |
| Total Income Tax | 57.2 | 0 | 12.0 | 60.7 |
| Number of Tax Returns Represented in the tabulation | 45,704 | 355 | 2,285 | 43,064 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-7

Income, Deductions, Credits, and Taxes for Tax Return
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1974

Aggregate Data
(\$ in thousands)

| | All Returns | Nontaxable Returns | Nearly Nontaxable Returns | All Other Taxable Returns |
|---|----------------|-----------------------|---------------------------------|---------------------------------|
| INCOME, PER CONCEPT | 12,097,231 | 32,719 | 146,957 | 11,917,555 |
| EXPANDED INCOME | 14,506,370 | 34,437 | 162,358 | 14,309,575 |
| AGI PLUS PREFERENCES | 14,889,783 | 50,985 | 202,360 | 14,636,438 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 12,097,231 | 32,719 | 146,957 | 11,917,555 |
| Investment Interest < Investment Income <u>1/</u> | 375,242 | 16,323 | 37,735 | 321,184 |
| Tax Preferences | 2,417,307 | 1,943 | 17,664 | 2,397,700 |
| Excluded Long-Term Capital Gains | 2,271,746 | 1,932 | 12,479 | 2,257,335 |
| Dividend Exclusion | 4,789 | 11 | 51 | 4,727 |
| Other Tax Preferences <u>2/</u> | 140,774 | 0 | 5,136 | 135,638 |
| ADJUSTED GROSS INCOME | 12,472,476 | 49,041 | 184,696 | 12,238,739 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 12,472,476 | 49,041 | 184,696 | 12,238,739 |
| Exemptions | 88,234 | 535 | 996 | 86,703 |
| Standard Deductions | 1,286 | 4 | 0 | 1,282 |
| Itemized Deductions | 2,531,637 | 54,807 | 157,163 | 2,319,667 |
| Charitable Contributions | 895,503 | 7,461 | 41,439 | 846,603 |
| Interest: Total | 492,795 | 28,303 | 59,447 | 405,045 |
| Home Mortgage | 31,687 | 110 | 517 | 31,060 |
| Invest. Interest < Invest. Income <u>3/</u> | 375,242 | 16,323 | 37,735 | 321,184 |
| Invest. Interest > Invest. Income <u>4/</u> | 85,867 | 11,871 | 21,195 | 52,801 |
| Medical | 25,306 | 115 | 1,176 | 24,015 |
| Casualty | 15,562 | 2,719 | 1,806 | 11,037 |
| Tax Expense | 812,789 | 4,370 | 19,743 | 788,676 |
| Miscellaneous Deductions | 289,682 | 11,839 | 33,552 | 244,291 |
| Excess of Exemptions & Deductions over AGI | 14,459 | 9,669 | 4,149 | 641 |
| Taxable Income | 9,865,778 | 3,365 | 30,684 | 9,831,729 |
| Tax at Normal Rates | 6,011,449 | 2,034 | 16,252 | 5,993,163 |
| Saving from Alternative Tax <u>5/</u> | 33,611 | 0 | 36 | 33,575 |
| Saving from Maximum Tax <u>5/</u> | 286,647 | 66 | 977 | 285,604 |
| Saving from Income Averaging | 150,694 | 90 | 259 | 150,345 |
| Tax Before Credits | 5,540,560 | 1,880 | 14,977 | 5,523,703 |
| Tax Credits | 97,705 | 1,880 | 10,415 | 85,410 |
| Foreign Tax Credit | 44,494 | 1,875 | 9,893 | 32,726 |
| Investment Credit | 52,611 | 6 | 516 | 52,089 |
| All Other Credits <u>6/</u> | 598 | 0 | 3 | 595 |
| Tax After Credits | 5,442,855 | 0 | 4,560 | 5,438,295 |
| Minimum Tax | 64,152 | 0 | 964 | 63,188 |
| Total Income Tax | 5,507,007 | 0 | 5,524 | 5,501,483 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 144,306 | 3,144 | 16,766 | 124,396 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 9,188,943 | 3,144 | 28,761 | 9,157,038 |
| Income Tax after Credits | 9,044,637 | 0 | 11,995 | 9,032,642 |
| Total Income Tax | 9,139,904 | 0 | 14,467 | 9,125,437 |
| Number of Tax Returns Represented in the tabulation | 33,142 | 89 | 366 | 32,687 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1974

As Percentage of Adjusted Gross Income less Investment Interest

| | : All Returns | : Nontaxable Returns | : Nearly Nontaxable Returns | : All Other Taxable Returns |
|--|---------------------|----------------------------|--------------------------------------|--------------------------------------|
| INCOME, PER CONCEPT | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| EXPANDED INCOME | 119.9 | 105.2 | 110.5 | 120.1 |
| AGI PLUS PREFERENCES | 123.1 | 155.8 | 137.7 | 122.8 |
| AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME | 100.0 | 100.0 | 100.0 | 100.0 |
| Investment Interest < Investment Income <u>1/</u> | 3.1 | 49.9 | 25.7 | 2.7 |
| Tax Preferences | 20.0 | 5.9 | 12.0 | 20.1 |
| Excluded Long-Term Capital Gains | 18.8 | 5.9 | 8.5 | 18.9 |
| Dividend Exclusion | * | * | * | * |
| Other Tax Preferences <u>2/</u> | 1.2 | 0 | 3.5 | 1.1 |
| ADJUSTED GROSS INCOME | 103.1 | 149.9 | 125.7 | 102.7 |
| Deficits | 0 | 0 | 0 | 0 |
| AGI of Returns with AGI > 0 | 103.1 | 149.9 | 125.7 | 102.7 |
| Exemptions | 0.7 | 1.6 | 0.7 | 0.7 |
| Standard Deductions | * | * | 0 | * |
| Itemized Deductions | 20.9 | 167.5 | 106.9 | 19.5 |
| Charitable Contributions | 7.4 | 22.8 | 28.2 | 7.1 |
| Interest: Total | 4.1 | 86.5 | 40.4 | 3.4 |
| Home Mortgage | 0.3 | 0.3 | 0.4 | 0.3 |
| Invest. Interest < Invest. Income <u>3/</u> | 3.1 | 49.9 | 25.7 | 2.7 |
| Invest. Interest > Invest. Income <u>4/</u> | 0.7 | 36.3 | 14.4 | 0.4 |
| Medical | 0.2 | 0.4 | 0.8 | 0.2 |
| Casualty | 0.1 | 8.3 | 1.2 | 0.1 |
| Tax Expense | 6.7 | 13.4 | 13.4 | 6.6 |
| Miscellaneous Deductions | 2.4 | 36.2 | 22.8 | 2.0 |
| Excess of Exemptions & Deductions over AGI | 0.1 | 29.6 | 2.8 | * |
| Taxable Income | 81.6 | 10.3 | 20.9 | 82.5 |
| Tax at Normal Rates | 49.7 | 6.2 | 11.1 | 50.3 |
| Saving from Alternative Tax <u>5/</u> | 0.3 | 0 | * | 0.3 |
| Saving from Maximum Tax <u>5/</u> | 2.4 | 0.2 | 0.7 | 2.4 |
| Saving from Income Averaging | 1.2 | 0.3 | 0.2 | 1.3 |
| Tax Before Credits | 45.8 | 5.8 | 10.2 | 46.4 |
| Tax Credits | 0.8 | 5.8 | 7.1 | 0.7 |
| Foreign Tax Credit | 0.4 | 5.7 | 6.7 | 0.3 |
| Investment Credit | 0.4 | * | 0.4 | 0.4 |
| All Other Credits <u>6/</u> | * | 0 | * | * |
| Tax After Credits | 45.0 | 0 | 3.1 | 45.6 |
| Minimum Tax | 0.5 | 0 | 0.7 | 0.5 |
| Total Income Tax | 45.5 | 0 | 3.8 | 46.2 |
| Deduction Equivalent of Tax Credits <u>7/</u> | 1.2 | 9.6 | 11.4 | 1.0 |
| Taxable Income which would yield: <u>8/</u> | | | | |
| Income Tax before Credits | 76.0 | 9.6 | 19.6 | 76.8 |
| Income Tax after Credits | 74.8 | 0 | 8.2 | 75.8 |
| Total Income Tax | 75.6 | 0 | 9.8 | 76.6 |
| Number of Tax Returns Represented in the tabulation | 33,142 | 89 | 366 | 32,687 |

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Appendix D

Comparing Deductions, Credits, and Special Tax Computations

In order to be able to compare tax credits and special tax computations such as the minimum tax, the alternative tax, the maximum tax, and income averaging to deductions and exclusions, a deduction equivalent for each of these provisions must be calculated. The deduction equivalent of a credit or of a special tax computation is computed by determining the difference between the taxable income which, using normal tax rate schedules, would yield the actual tax before the provision and the actual tax after the provision. For example, "deduction equivalent of tax credits" is equal to the difference between "taxable income which would yield tax before credits" and "taxable income which would yield tax after credits." 1/

It should be noted that under this method of computing deductions and credits, the order in which the various deductions, credits, and special tax provisions are calculated affects the value of deduction equivalents. Because the tax rate schedule is progressive and successive increments to income are taxed at successively higher rates, the deduction of equivalent of the items which are last converted to a deduction equivalent will be larger (for the same amount of a credit) than the items converted first.

For purposes of computing the deduction equivalent of the credits for the tables in Appendices A, B, and C, credits were taken after deductions, so that the deduction equivalent of credits is biased upwards. In order to simplify computation, the general tax credits available to taxpayers in 1975 and 1976 were ignored. In 1975, the credit was \$30

1/ An alternative would have been to compute the value of the tax saving provided by deductions and exclusions. That saving would be comparable to the value of a special tax computation and of a tax credit. Neither method is superior analytically.

for each exemption claimed, other than exemptions for age and blindness. In 1976, the general tax credit was the larger of \$35 per exemption (other than those for age or blindness) or two percent of the first \$9,000 of tax (\$4,500 on a separate return of a married person). Omitting consideration of these credits is not significant for high-income returns. It also facilitates accurate comparisons between the deduction equivalents of nontaxable and taxable returns.

For Tables 16 and 17, credits and deductions were compared in a slightly different manner which tends to over-value credits as compared with the deduction equivalent method. Whether the largest credit or the largest deduction yielded a larger tax saving was determined by comparing the tax saving yielded by the largest deduction with the value of the largest credit.



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